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MEMORANDUM

ON THE

Industrial Situation After the War

THE GARTON FOUNDATION

Privately circulated among Employers, Representatives of Labour, and public men of all parties, May—September, 1916. Now published as revised in the light of criticisms and suggestions received

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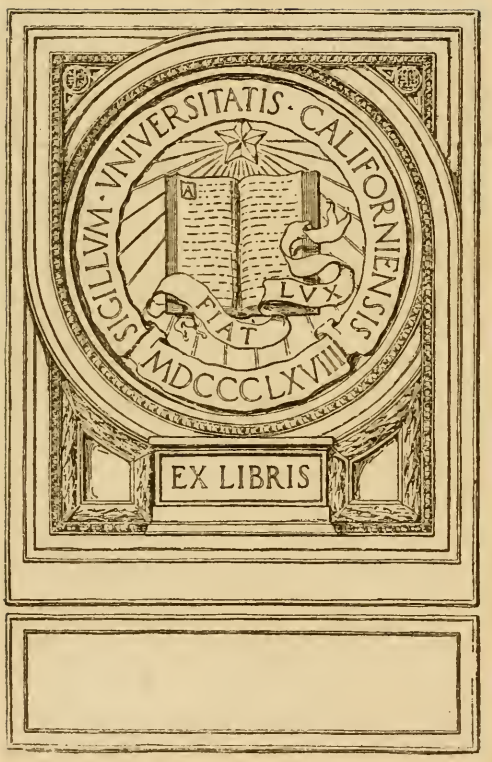
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Preface.

This Memorandum is the work of a group of men who came together, at the instance of the Garton Foundation, for the purpose of discussing the industrial situation in this country at the close of the present war. The group included men of very varied views, in touch with both the Capitalist and Employing Classes and Organised Labour, as well as with financial, economic and administrative circles. As a result of their inquiries and of correspondence and discussion with representatives of all parties to industry, they became convinced that the return from war to peace conditions would inevitably involve great difficulties, which might result, if not carefully and skilfully handled, in a grave outbreak of industrial disorder.

In the endeavour to find a solution of these difficulties, they were led to analyse the more permanent causes of industrial friction and inefficiency, and to seek the means by which these causes might be removed or their action circumscribed. It is their belief that these means can be found and that an emergency which threatened all classes of the community with serious loss and hardship may be used as an opportunity for placing the whole industrial life of the country on a sounder basis.

In that belief, this Memorandum was compiled. It has been the object of its authors to keep always in mind the human as well as the economic side of industry. They are conscious that this country has suffered much in the past from the habit of sectional thinking, which divides our national activities into water-tight compartments and regards the nation itself as composed of detached or hostile classes. The keener consciousness of corporate life, which is perhaps the most beneficial result of the present struggle, has created an atmosphere in which it is easier to conceive of industry as an inseparable part of the life of the nation ; and of those concerned in industry, whether as employers or employed, as co-workers in the task of building up a future worthy of the sacrifices which have been made during the war.

The Memorandum has already been privately circulated, to a considerable extent, among employers of labour, leaders of working class opinion, and those who have taken a prominent place in the discussion of economic and social questions. A large number of criticisms and suggestions have been received, which have been collated, carefully examined and, in many cases, incorporated in the Memorandum. The general tone of its reception on all sides has been such as to encourage its publication as a contribution to public discussion of what is perhaps the most urgent question, after the immediate conduct of the war, with which the country is confronted to-day.

It is evident that in order to avert the threatened dangers and to take full advantage of the opportunity afforded by the circumstances of the war, with its upheaval of existing conditions and its challenge to accepted ideas, study of the questions involved must begin while the war is still with us. Many Government Committees and many non-official bodies are, in fact, already at work upon various aspects of the problem. There is, however, a danger that the number and complexity of the questions involved, and especially of those relating to the actual period of demobilisation, may divert attention from the broader aspects of industrial reconstruction and the fundamental principles of industrial policy. The authors of the Memorandum have endeavoured throughout to keep their eyes fixed upon the fundamental facts of industrial life and the spirit by which it should be animated, treating the more detailed problems of demobilisation and reconstruction with a view to showing them in their right proportion and relation to the main issues.

The Trustees of the Garton Foundation (The Rt. Hon. A. J. Balfour, M.P., The Rt. Hon. Viscount Esher, G.C.B., and Sir Richard Garton) have permitted the devotion of its staff and resources to this work in the belief that sincere and intelligent inquiry with regard to these questions cannot fail to be of national service. While they do not in any way identify themselves with the conclusions arrived at by its authors, they believe that nothing but good can come of submitting them to the test of public discussion. In that belief they have sanctioned its publication in its present form.

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* The numbers in brackets relate to paragraphs, not to pages.

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A.—The Industrial Situation To-day.

1. The probable course of Trade and Industry after the war is already engaging the attention of numerous official and non-official bodies. Some of these bodies are concerned with the difficulties of demobilisation and a return from war to peace activities; others with the possibilities of development and expansion which the changed political and economic conditions appear to hold out to us. Both aspects of the problem have attracted a considerable amount of attention; but it is doubtful whether there is as yet any widespread public recognition either of the dangers by which we shall be threatened, or of the greatness of the opportunity which will be presented to us. Among those who are closely connected with Industry, whether as Employers or as leaders of Organised Labour, there are many who regard the future with grave apprehension. Both in the difficulties inseparable from readjustment and in the more permanent effects of the war upon our economic life, they foresee the occasion of a renewed outbreak of industrial friction which would not only obstruct our commercial progress but seriously cripple our power of recovery.

2. The seeming prosperity of the country during the war has obscured the realities of the situation. Because the war has not given rise to unemployment and the financial crisis which followed on its outbreak was successfully tided over, many observers ignore the industrial dislocation which has taken place. Because there has been a general cessation of disputes between Labour and Capital, which has enabled us to concentrate our energies upon the vigorous prosecution of the war, they imagine that the problem of industrial unrest has in some way been solved.

3. These conclusions are altogether contrary to the facts of the case. The prosperity of the present is artificial and transient. It is due in part to strenuous exertion which cannot be continued indefinitely; in part to sacrifices which go unrealised because they are not proclaimed; in part to the depletion of accumulated stocks; in part to the suspension of expenditure on national plant which, if continued, would end in dilapidation; in part to the temporary absorption into industry

of people who will not continue to be producers after the war ; in part to borrowing and recalling money from abroad. It resembles in large measure the lavishness of the spendthrift which leads to bankruptcy. The absence of unemployment is due, not to thriving trade, but to the withdrawal of several million men from the labour market, the inflation of the currency, and the concentration of purchasing power in the hands of the State, which has not to study the absorptive power of commercial markets for the disposal of its purchases, but uses them to destruction as fast as they are produced. It is not till these stimulants are removed and we are left once more to the operation of the ordinary laws of supply and demand, complicated by the difficulties of readjustment to normal conditions, that the real situation created by the war will become obvious.

4. It may be said that the success with which our national organisation and activities were adapted to the circumstances of the war gives a fair promise of similar success in the readjustments necessitated by peace. But the problems presented by a temporary crisis in which economic considerations sink into a secondary place and the strongest possible appeal is made to the spirit of self-sacrifice in all classes, afford no real parallel to those presented by a return to normal conditions after a long period of dislocation. The factors mentioned in the preceding paragraph, while they have eased the situation during the war, will become a source of weakness as soon as peace is signed. In some cases, such as the withdrawal of men from the labour market, their operation will be exactly reversed. In others, such as the depletion of stocks and the suspension of expenditure on national plant, immediate relief has been purchased by mortgaging the future. The war has, in these two regards, been paid for by drafts upon our prospective wealth which will have to be met at a time when the enthusiasm which sustains a nation during war has given place to the reaction that usually follows a period of tension. The rapid recovery of Industry from the shock of war affords no ground for dismissing lightly the difficulties inherent in a return to peace conditions. On the contrary, an examination of the causes of that recovery reveals additional grounds for viewing those

difficulties with concern. The prospect is a grave one and it is likely to be further complicated by the spirit in which it is regarded by both parties to Industry.

5. Even were the present relations of Employers and Employed entirely harmonious, we could not feel complete confidence in the continuance of that harmony after the war. But such is not the case. Even under the stress of war there is ill-feeling, suspicion, and recrimination. Charges have been made against each side of placing personal and class interests before national welfare, and of using the national emergency to snatch present gains and to strengthen its strategical position for the resumption of industrial hostilities. Employers have pointed to extortionate wage demands, broken time, slackness, insubordination, and sullen resistance to temporary changes, the necessity for which has been openly acknowledged. The workers have pointed to war profits, to the virtual enslavement of labour by the misuse of powers conferred by the State, to attempts to undermine and weaken the Unions and so to establish an ascendancy which may be maintained after the war. They lay stress, also, on the increased cost of living, which they attribute in the main to the deliberate action of manufacturers and traders, more studious of their own than of the national advantage. The closing of the ordinary channels for the ventilation of grievances has served only to intensify the bitterness of such feelings.

6. There is a prevalent belief that the "brotherhood of the trenches" and workshops, the spirit of co-operation and self-sacrifice which has made possible our efforts in the war, will remain as a permanent factor in our national life. A great deal has been said of the effect of discipline upon the men who have served at the front, and it is widely assumed that on their return they will be more amenable to management and less responsive to agitation. Those who argue thus do so mostly on general principles and probabilities. But it is no use arguing that certain conditions *ought* to produce certain effects if the facts show that they *do not*. There is evidence that many of the men who return from the trenches to the great munition and shipbuilding centres are, within a few weeks of their return, amongst those who exhibit most actively their discontent with present conditions. Among those who

have fought in Flanders or who have been employed in making shells at home, there are many who look forward to a great social upheaval following the war. To some this may be distressing and almost incredible. The facts remain, and the facts must be faced.

7. So long as the country is actually at war, this spirit is likely to be held in check both by the abnormal conditions of State control and by the patriotism of the mass of the people. So long as the peril from without remains the supreme factor, we may look to the workman to forego his most cherished safeguards and to employers and the propertied classes to bear patiently restriction of profits and an unparalleled burden of taxation. But we have had signs already, in the war-time strikes, in the denunciations of profiteering, and in the evidence of a great body of suppressed resentment on both sides, which does not as yet come to the surface, that the industrial peace is only a truce. It would be a mistake to assume that this truce will survive the immediate pressure of foreign war which brought it about.

8. The truth is that the war has effected a temporary alliance between different parties and different classes similar to that frequently effected between States. Just as nations formerly bitterly opposed have been united in face of a common peril, so Liberal and Tory, Labour and Capital, have united to-day *for a specific purpose.* When that purpose has been achieved the alliance will break up, unless more permanent ties of interest and sympathy can be created.

9. For aid in the creation of such ties we can, indeed, look to that quickened sense of corporate responsibility which the war has developed. But for this purpose it will not suffice to rely upon any vague sentiment of goodwill. We have for so long been accustomed to consider the community as divided into classes having neither common aims nor common interests, and to regard the operations of industry as something apart from the moral and intellectual life of the nation or of the individual, that it will not be easy to carry into the industrial sphere that spirit of united effort and high endeavour which has been awakened by the great conflict. The workman's sense of loyalty in times of peace has been excited by his Union or by his class rather than by any conception of national unity. The

employer's business patriotism has stopped short at the conception of successful resistance to foreign competition. By both alike the internal organisation of industry has been considered as a purely domestic affair, a business bargain to be arrived at by a compromise between competing interests. The events of the past two years have emphasised both the advantage of co-ordinated action and the closeness with which Industry is linked to every other element of our national life and strength. But to bring home these truths to the bulk of Employers and Employed, it will be necessary to make very clear the relations between the various parties to Industry, and between Industry itself and social and political development. The unity of national effort in the war has arisen mainly from the clearness of the issues involved and the force with which they have been brought home to every section of the people. In order to achieve a similar unity of purpose and effort in the activities of peace, it will be necessary to make the issues equally plain and to embody in the form of a concrete policy the principles which underlie them.

10. The idea that the united front shown by the country to the external enemy implies of itself the burial of class hatred and suspicion and that the suspension of controversy during the war foreshadows the cessation of industrial disputes after the war, is dangerous just because it is so attractive. The natural desire to accentuate the appearance of unity and minimise internal differences leads us to treat as negligible, sections of public opinion which are really powerful and may become predominant. The spirit of patriotism which induces the majority of all classes to remain silent as to their grievances is construed to mean that the feeling of grievance does not exist. At the same time that criticism is denounced as unpatriotic, abstention from criticism is supposed to imply unqualified approval.

11. The war has not put an end to industrial unrest. Every one of the old causes of dispute remains, and others of a most serious nature have been added in the course of the war. The very moderation and unselfishness shown by the responsible leaders of Organised Labour are looked upon by important sections of their following as a betrayal of the cause and by some Employers as a tactical opportunity. The efforts of the Government

to safeguard the interests of the workers are likely to give rise to unreasonable demands for future action on the one side and ungenerous criticism on the other. The difficult and complex problem of the return to peace conditions will bristle with thorny questions only to be solved successfully by the clear-sighted and unselfish co-operation of all concerned. There are too many indications that they may be approached in a spirit of passion and suspicion which would render a satisfactory solution impossible.

12. This would be a serious matter even if the industrial problem stood alone. Failure to cope with the economic situation must necessarily involve widespread loss and misery. But the industrial problem is inextricably entangled with social and political development. It is not merely that a certain minimum standard of material well-being is a necessary condition of moral and intellectual advance, or that commercial prosperity is an important factor in the strength and prestige of the State. Industry itself has a human side. The discontent of Labour is not exclusively a matter of wages and hours of work. It is becoming increasingly evident that it is based to a very large extent upon questions of *status* and social conditions. It is not to be desired, however, that the matter should be considered from a class or sectional standpoint. Industrial life is simply one phase of the national activities, and the responsibility of seeing that the conditions of industrial life are such as make for conscious and efficient citizenship rests upon the community as a whole. The spirit in which both Employers and Employed regard their common work will colour not only their relations to each other but their general attitude towards the corporate life of the nation. That attitude has been roughly challenged by the war, which has profoundly disturbed the current both of circumstances and of ideas. It has shaken men's faith in the permanence of existing conditions and accustomed them to the contemplation of great changes and to the possibility of extraordinary exertions. The moment is a propitious one for an attempt to understand more clearly than in the past the fundamental principles of industrial relations and their place in the national life. The forces of change are visibly at work, and it rests with us whether we allow them to hurry us blindly with them, or direct them along the path of ordered progress.

B.—The Effects of the War on the Industrial Situation.

13. The problems arising directly from the effects of the war are, in themselves, sufficiently serious. It has involved a dislocation of industry, a diversion of labour and capital and general effort to purely military objects, which has not only made inroads on the national wealth but has introduced altogether new factors into the problems of our industrial life. To accomplish the change from war to peace conditions without undue friction or loss, to accommodate our methods and organisation to the new burdens and altered circumstances, is a task as heavy as any trading community has had to face.

14. The industrial effects of the war may be grouped under five main heads :—Employment ; Earnings ; Distribution of Earnings ; Capital and Credit ; Spirit and Temper.

I.—EMPLOYMENT.

15. The problem of Employment has two phases : (1) the Supply of Labour ; and (2) the Demand for Labour.

(i) The Supply of Labour.

(*a*) Demobilisation.

16. The first factor to be considered is the return of some three or four million men from military to civil life. It is impossible to forecast the establishments which may be considered necessary after the war, but even on the assumption that our standing army is raised to a Continental standard, there will probably be somewhere about three million men to be re-introduced into civil employment.

17. The problem of demobilisation is already receiving attention with a view to preventing the flooding of the labour market. The cost of maintaining forces on the present scale must, however, set a limit to the period of demobilisation.

(*b*) Diminution of Government Orders.

18. In addition to men actually under arms, those who have been diverted from their normal employment to the manufacture of munitions and material of war

will have to return to civil industry as the Government orders for naval construction, artillery, ammunition and equipment are reduced to the peace scale.

(*c*) Stopgap and Emergency Workers.

19. The necessities of the war have brought into active employment a large number of people, especially women, who had not previously been engaged in industry. Some of these have been introduced into various trades to take the place of men serving with the colours. Others have been called into activity by the abnormal demand for munitions of war. Estimates of the increase in the number of women workers in the productive side of industry vary between 200,000 and 300,000, whilst the number of those engaged in commercial and institutional occupations—offices, shops, railways, administration, education—is estimated to have increased by something over 300,000 ; but it is to be remembered that a great proportion of these are women who in the ordinary course would have retired from industry. A large number of former non-producers (in the industrial sense) have none the less been added to the labour force of the country. It is probable that many of these will desire to remain wage-earners. Apart from the attraction of economic independence, some will be compelled to seek continued employment by the death or disablement of those on whom they were dependent, or by diminution of income through the financial results of the war. In addition, there are large numbers of women who have left their ordinary employment to take up munition work. These women, as well as the men who have been transferred from civil to war industries, will have to return to their former occupations or find other jobs. A large number of boys have also been introduced into industry, and the total number of those who have become workers for the first time during the war, or have been transferred from one form of employment to another as the direct result of war conditions, will probably amount to something like a million and a half, divided fairly equally between the sexes. When the special necessities of their war employment come to an end, all these will be added to the general reservoir from which the supply of labour is drawn.

(ii) The Demand for Labour.

20. The demand for Labour will arise from three sources ; one directly connected with the war, the others representing a return to normal conditions.

(*a*) Repair and Reconstruction Demand.

21. The repair and replacement of property damaged or destroyed during the course of the war will be an important factor in providing immediate work. In this country the amount of property destroyed is comparatively small ; but there will be a demand for new tonnage to replace vessels sunk, for commercial motors and other material to replace those used for war purposes. Roads cut up by use for heavy military transport will require mending. Plant and machinery adapted to war purposes or left idle through stagnation of trade will need alteration and repair. Repairs and renewals postponed for the period of the war will have to be carried out. Depleted trading and domestic stocks will have to be replenished. In the devastated districts of Belgium, France and Poland reconstruction on a big scale will be necessary. Roads, bridges, railways, factories, machinery, houses, churches, will have to be reconstructed or replaced. In all this work our foundries and factories will find their opportunity.

(*b*) Revival of Private Demand.

22. Whilst the daily expenditure of some munition workers and government contractors, and of some recipients of war allowances, has largely increased during the war, the private expenditure of the majority of people has been considerably reduced. They have spent as little as possible on new clothes, new furniture, books, utensils, decorations. Such demands may be regarded as in part postponed and accumulating. How far people will have the means to make their demands effective will depend on the general industrial and financial position, but it is to be expected that in the relief and reaction following the declaration of peace money will be more freely spent and there will be an increase in the demands of one section of the public which will more than offset the decrease in the expenditure of other sections.

(*c*) Revival of Foreign Trade.

23. We may hope also for a revival of the Foreign Demand, but we shall be faced by foreign competition

in overseas markets, perhaps still keener than before the war, and the size of the demand itself will depend largely upon financial conditions. It is certain, however, that many branches of commerce suspended by the war will revive. Unfulfilled contracts will have to be executed. Orders which have been held back owing to difficulties of transport, or to the diversion of labour from industry to war service in this country, will come forward. The release of shipping taken over for war purposes will enable the foreign countries most affected to make good a long period of interrupted communication. There will be a loss of German and Austrian orders, but this loss will be largely compensated by increased trade with our Dominions and Allies, whilst the chief neutrals, who have on the balance considerably profited by the war, will provide unusually good markets. Taking all these factors together, it is probable that unless a violent dislocation of the foreign exchanges takes place there will be a considerable revival of foreign trade, even apart from purely reconstructive orders. It may, however, be some time before it reaches the pre-war level.

PROSPECTS OF EMPLOYMENT.

24. Against the effects of demobilisation, the cessation of Government orders for war work, and the addition of new workers to the labour market, we can therefore set off three great sources of employment—the necessity for reconstructive work, the revival of private buying and the revival of foreign trade. So far as we can forecast the net effect of these factors, we may expect a considerable amount of unemployment, due not to "shortage of work" or "surplus of labour," but to the general dislocation of industry caused by the war and the difficulties of readjustment.

25. The immediate problem will, indeed, be rather the adjustment than the provision of employment. The returned soldiers and discharged munition workers will have to be absorbed into the trades where the demand is greatest. Emergency workers, employed on Government contracts, will have to be found a place in civil industries. In cases where men now serving have been guaranteed replacement on their return, the stopgap workers will have to seek other occupation. In many

cases, the experience of the war has shown that a workshop or office can be run effectively by a smaller staff than hitherto and men whose places have not been guaranteed may have to go elsewhere. It is probable that many clerical workers and male domestics will have to turn to industrial employment, owing to the competition of female workers and the continued reduction of establishments. The work of reconstruction and the effect of orders held back for the period of the war will create an abnormal demand in special trades. The whole machinery of industry and of home and foreign trade will have to be readjusted to normal conditions. To carry out this complicated task will tax both the goodwill and ingenuity of all concerned, if it is to be accomplished without temporary local distress of a more or less serious character.

II.—EARNINGS.

26. The first step in any enquiry into earnings is the realisation that wealth cannot be distributed before it is produced; and that the national income cannot exceed the aggregate value of goods produced and services rendered within the country or received from without in payment for goods and services, or as interest on foreign investments. So stated, the proposition will be recognised as a truism, but a failure to realise its truth lies at the root of a host of economic fallacies, especially on the part of those who concern themselves wholly with distribution and those who prescribe some single specific as the cure for every national evil. The foundation of prosperity is production and many causes will tend to reduce production after the war.

Causes Tending to Lessen Production.

(*a*) Men Killed and Incapacitated.

27. A very large number of those formerly engaged in productive work will have been killed, or wholly or partly incapacitated. We can only guess at the figure, but it may probably be put without exaggeration at over half a million. To these must be added a certain number who, though their names have not appeared in the lists of sick or wounded, have suffered in body or in mind under the severe conditions of trench warfare and will feel the effects of the strain in after life.

(*b*) Emigration.

28. Of the men who come back it is at least possible that we shall lose large numbers through emigration. Many will have become discontented with sedentary occupations and will prefer the free and open-air life of the Overseas Dominions. Many will seek better prospects abroad through fear of the hard conditions likely to be found at home. Such has been the common experience of nations after great wars, and in this case the Dominions will themselves have lost a large number of workers and will be the more inclined to encourage immigration.

29. When a man in the prime of life dies or emigrates, it is a real loss to the home country. It is true that he has consumed as well as produced and when he is gone there is a consumer as well as a producer the less. But an adult man normally produces two or three times as much as he personally consumes. He has to produce enough in his working years to provide for the up-bringing of children and for maintenance in old age. Or, looking at it in another way, the rearing, educating and training of a competent producer entails a cost of several hundred pounds to the community and the expenditure vested in him is lost to that community when he dies or leaves and settles abroad.

30. Even assuming the number of new workers to equal the total number lost by death, disablement or emigration, we shall still be faced by a diminution in the ranks of our most efficient producers, for which the new and imperfectly trained labour introduced during the war will form only a partial substitute.

(*c*) Deterioration of National Plant.

31. The national plant will have seriously deteriorated. By "national plant" is meant the whole machinery of production and distribution with which the industries of the country are carried on—factories, workshops, machines, tools, railways, roads. While certain trades have been obliged to maintain themselves at the highest level of efficiency, others less directly associated with war work have been largely at a standstill. Renewals and improvements have had to stand over till after the war; machinery has deteriorated through

enforced idleness and lack of attention. The permanent way and rolling-stock of our railways, the upkeep of our roads, have been perforce neglected. All these factors make for diminished efficiency and reduced production.

(*d*) Effects of Overwork.

32. In the war industries many employers and employees have been working long hours, in some cases with no week-end break and no holidays. The strain of such continued over-exertion can be borne for a time, but its effects are felt later. Some diminution of productive capacity must be allowed for on this count.

(*e*) Suspension of Industrial Education.

33. Finally, the suspension of industrial education will necessarily bear fruit in lessened efficiency. Our young men have left their colleges and technical schools for the trenches. The laboratories and training shops have been turned into cramming establishments for munition workers. Apprentices and improvers have been withdrawn from the trades which they were learning. Boys and girls who would have been apprenticed to various trades have gone to blind-alley work in the munition shops. In addition to this interference with directly vocational training, the ordinary schools have suffered from the withdrawal of teachers, the introduction of less qualified assistants and the interruption of training courses. Unless an effort is made to make up the leeway, there is a danger that children now in the schools will arrive at the age for vocational instruction with their general intelligence and capacity for learning less fully developed than might have been the case.

Causes Tending to Increase Production.

34. Against the above must be set a number of new factors tending to increase the national output. In many ways the war has acted as a stimulus to industry. While the strenuous exertions of those engaged in war industries may be followed by a reaction, it is probable that on the whole the habits acquired during the war may result in raising the general average of application. Many may work harder and more efficiently than they

did. To this end the effort to recover, in harder circumstances, the standard of living maintained before the war will materially contribute. Some at least of those who survive the ordeal of the trenches will come back keener, quicker and more physically fit than they went. The number of former non-producers who continue working will probably be large, and in many quarters they have revealed unsuspected adaptability and endurance.

35. Much, though by no means all, of the special plant erected for war purposes can be adapted to peace industries. In some cases, as in the shipbuilding and army clothing branches, it will be as readily available for manufacturing for the peace markets as for supplying naval and military requirements. A large number of buildings and machine tools erected during the war can be taken over with little or no alteration. Others can be converted to the uses of ordinary trade in the same way as those existing before the war were adapted to the manufacture of munitions.

36. Under the stress of the war there has arisen a keener appreciation of the need for scientific production. In many trades great strides have been made in the direction of standardisation of parts, better management of the supply of raw material and better organisation of business. A knowledge has been gained of special processes hitherto monopolised by German or Austrian firms. Our manufacturers have become accustomed to the supply of necessary articles on a larger massed scale. In the engineering industry the use of jigs, limit gauges, and automatic or semi-automatic machine tools has been enormously extended, and works that have acquired for the first time an intimate familiarity with these appliances will doubtless continue to use them in connection with their accustomed work after the war.

37. But when all these things have been allowed for, it remains certain that the national production must, for many years, be reduced, unless it can be rendered more efficient by better organisation of Industry.

Reduction of Income from Abroad.

38. How far the income hitherto received from abroad in the shape of interest on foreign investments

will prove to be diminished after the war is, at present, problematical. The heavy sales of foreign securities and the contraction of national and private debts in foreign money markets will make for a considerable diminution ; but against this must be set off the loans, almost equivalent in amount, made to our Dominions and Allies, which will presumably bear interest and be subject to repayment. Income from this latter source will be government income, and will go to pay interest and redemption on State loans contracted at home and abroad. Income from abroad in the shape of payment for shipping, banking, and insurance services, may take some years before it reaches its pre-war level.

Net Effect of the War on Earnings.

39. Taken as a whole, there can be no reasonable doubt that, unless an organised effort towards increased production is made, the aggregate national income is likely to be much lower than before the war. The decrease will be cloaked to some extent by the inflation of money values. It is conceivable that whilst real income in terms of goods and services will be diminished, nominal income in terms of money will be the same or even higher. This may ease matters for a while, but in the long run income is assessed at its intrinsic value ; and with the smaller total available for distribution, the likelihood of quarrelling over its apportionment will increase.

III.—THE DISTRIBUTION OF EARNINGS.

40. With a general reduction in the national income —the amount of wealth to be distributed—the question of distribution will become acute. It will be complicated and intensified by the introduction of several new factors.

(*a*) High Prices.

41. The rise in the cost of living has imposed a burden on the working and lower middle classes during the war, which is perhaps inadequately appreciated by those who are accustomed to a larger margin for retrenchment. The release of shipping employed for war purposes, the resumption of industry and the re-opening of closed

sources of supply will no doubt operate in the direction of a fall. On the other hand, the general decrease in production, the higher cost of production due to deterioration of plant and diminished efficiency, the corresponding decrease in production abroad and the general financial and industrial dislocation will all conspire to keep prices up or even to force them still higher. The probable sequel will be a demand for increase in nominal wages to enable the previous level of real wages—the standard of living—to be maintained. The satisfaction of this demand may quite well lead to a further raising of prices, resulting in much hardship among those employed in trades in which no increase of wages has been secured. The professional classes and clerical workers, whose nominal earnings have not generally speaking been increased during the war, will be very hard hit. The real value of incomes derived from investments paying a fixed rate of interest will be appreciably diminished. Apart from currency influences the lowering of prices will depend upon increased industrial output, and upon the extent to which the consumption of luxuries, with its consequent employment of workers on the creation of useless commodities, is foregone, enabling labour to be diverted into industries producing the necessaries of life. Increased taxation will contribute to this end, but will not relieve wealthier people of the obligation to accept without demur a diminished proportion of the national income if this should prove to be necessary in order to save the poorer sections of the community from severe hardship. Ill-considered fiscal changes might, on the other hand, drive prices still higher or retard their fall.

(*b*) High War Wages.

42. The urgent demand for munitions and material of war, together with shortage of labour, has led to high rates of wages being paid for war work. The amount of such increases has been greatly exaggerated in the popular mind by confusing weekly earnings with rates per hour. The large sums frequently mentioned as being taken home by particular workmen at the end of the week are in almost all cases earned by unsparing labour on piece tasks, or by working long hours overtime. Family earnings have also in many

cases been increased as a result of more members of the family going out to work. The standard of comparison in any consideration of wage movements is the rate per hour, and whilst wage rates in the munition industries have substantially increased, the average advance in all industries has been more than counterbalanced by the rise in prices. It follows therefore that any serious reduction in rates after the war will leave the generality of workers in a far worse position than before the war. It is to be remembered also that there are a great many employments in which wages have increased not at all or very little during the war. Wage-earners in these cases are already suffering from the increase of prices and will continue so to suffer long after peace is declared, unless some very definite steps are taken to improve their lot.

43. The attitude of unskilled and unorganised labour after the war will be influenced by the fact that in military service many of them will have made acquaintance with a hitherto unknown standard of maintenance. They have been better fed and better clothed than ever before. Their dependents, too, have been receiving State allowances, often increased by their own earnings. These people will not readily go back to the old conditions of employment and life. For these reasons among others, large sections of lower-paid wage-earners will resent and resist any attempt to make good a reduction in the national income at the expense of themselves and their families.

(*c*) War Loans and Taxation.

44. An enormously increased national debt will be one of the inevitable legacies of the war. Its amount will depend upon the duration of the war, but it will probably not be less than £3,000,000,000. The payment of interest on this debt, and the provision of a sinking fund for its redemption, will involve an annual expenditure beginning at £250,000,000 and diminishing gradually year by year as the debt is reduced. This will materially affect the distribution of the national income. A portion of the debt may be presumed to be covered, as already mentioned, by loans to Allies and to the Dominions, but as for the rest the financial obligations of the National Debt will entail the trans-

ference of say £200,000,000 per annum, roughly one-tenth of the whole national income, from the general body of taxpayers to a comparatively small class of investors. How far this will intensify inequalities in distribution will depend upon the incidence of after-war taxation. If an undue share of the burden is placed upon the non-investing classes the balance of distribution will be seriously disturbed, and it is even conceivable that a demand for repudiation might arise. The possibility of this becomes less remote when the situation in Germany and Austria is considered. There is a likelihood of the German and Austrian Governments being unable to pay the interest on their war debts, and legislation amounting to virtual repudiation may have to be passed. Such an example would not be without its reactions here. It would be asked how we, overloaded with debt and taxes, were to compete in the world's markets with nations who had repudiated their debts. But anything amounting to even partial repudiation or to adverse discrimination between holders of war loan and of other securities would be unjust, dishonourable and disastrous. Any drift in that direction can best be prevented by encouraging wage-earners to save and to invest their savings in small Government bonds ; but still more by avoiding, after the war, the raising of revenue by the taxation of necessaries. If the incidence of taxation is such that revenue is drawn mainly from the creditor classes, the distribution of the national income will so far be left unaffected.

(*d*) Dearness of Capital.

45. With the prospective diminution in the volume and flow of wealth, capital available for investment will be scarce and dear and credit facilities are likely to be limited. The argument has been put forward that the new national debt makes ideal banker's collateral, and so constitutes a basis for a great extension of credit ; but this appears to overlook the fact that the volume of credit, though conditioned by enterprise and confidence, is otherwise dependent upon the continuous output of actual wealth. While a particular kind of paper may be more acceptable as a basis of credit than another, an increase in the amount of that paper will not swell the volume of

credit as a whole. There is also some expectation that the Government will be able to repeat and perhaps to extend the operations of August, 1914, in the way of credit creation or subsidy; but here again it is apt to be overlooked that such emergency measures cannot by their very nature be made a permanent and continuous feature of the financial system. New capital may therefore be expected to command a high return after the war, and to absorb a correspondingly large share of the national income in proportion to the amount of capital provided.

PROSPECTS WITH REGARD TO THE DISTRIBUTION OF EARNINGS.

46. Of the four above-mentioned factors tending to influence distribution, two, high prices and dear capital, will react unfavourably to Labour and are hardly susceptible of concerted or legislative modification. High prices may make for higher profits, and thus enable higher wages to be paid; but unless the national finances are handled with great discretion heavy taxation will operate against both the making of profits and the enjoying of wages received. The loading of the scales would in any case appear to be against Industry, and perhaps more particularly against Labour; and unless every effort is made to expand the national output it is difficult to see how conflicts between employers and employed can be avoided.

IV.—CAPITAL AND CREDIT.

47. It has already been shown that the fixed Capital of the country, its plant and communications, will have deteriorated to a serious extent, and that new Capital will be scarce and dear owing to the restriction of production and war losses. The critical period for credit will not have been passed until twelve months after the end of the war, when the emergency legislation affecting bills of exchange, debts and mortgages expires. It is possible that when embargoes are removed and financial obligations have to be met, it may be necessary for the State to exercise discretion and even to ask for new powers in order to stave off a partial collapse of credit.

V.—SPIRIT AND TEMPER.

48. The problems presented by the industrial situation would be difficult enough if they were faced in the best spirit and with the coolest wisdom. Unfortunately, as has already been suggested, there is a strong likelihood of their being complicated by the existence on all sides of an ugly temper which will render it difficult to arrange an acceptable settlement of the issues at stake.

49. In so far as this temper is directly connected with the war it may be summarised under three heads :— Economic Discontent ; Class-Suspicion ; Psychological Reactions.

(*a*) Economic Discontent.

50. We have seen that several causes will conspire to reduce the earnings of Labour after the war. Even should nominal wages remain at a high level or be increased, real wages will be low owing to the increase in prices. At the same time there will be a certain amount of unemployment due to the difficulties of readjustment.

51. These are phenomena particularly likely to cause discontent. The man who sees that while he is receiving more money his spending power is actually decreased, the man who finds a difficulty in obtaining work although he knows that there is no general lack of demand for labour, are both apt to imagine themselves cheated and to break out into fierce resentment against those better off than themselves. To say that this resentment is in large part the result of defective reasoning will not get rid of the trouble. It is not easy for men to reason on economic causes when the result is felt not merely in need for retrenchment but in want of necessaries.

52. The sense of hardship will be aggravated by the cessation of separation allowances. There is no doubt that in many cases, such as the families of agricultural labourers and unorganised workers, the separation allowances have represented a substantial increase in spending power, while the wage-earner has been better fed and cared for in the Army than ever before. They will not go back without protest to the old, often wretched, conditions of their life before the war.

53. Unless some means can be found of counteracting the tendencies above discussed, the lot of the wage-earner is likely to be a hard one. At the same time, the demand for reasonable remuneration and decent conditions will be stronger than ever. The national exertions during the war have profoundly affected the minds of the working class and have impressed them with perhaps an exaggerated notion of the power of the State and the extent of the national resources. It will no longer be possible to silence the demand for social reforms, by the assertion that they cannot be afforded. Such a contention will be met by the argument that a nation which has been able in an emergency to find several millions a day for war purposes cannot plead poverty as an excuse for neglecting the improvement of social or industrial conditions.

54. While there is a danger that the real earnings of Labour will be reduced, the real profits of Capital and Management may suffer a similar diminution due to restricted output, increased cost of production and heavy taxation, whereupon the three great partners in Industry will be threatened simultaneously and the competition between them for its proceeds will be intensified and embittered.

(*b*) Class-Suspicion.

55. The necessities of the war, especially with regard to the production of munitions, have resulted in the temporary abandonment of many of the Trades Union "safeguards." The two most important instances are the removal of restrictions on output and hours of work and the dilution of skilled Union Labour by partly skilled or unskilled, non-Union Labour. Pledges have been given for the restoration of the *status quo*. The new developments of industry, the springing up of a great army of new workers and the difficulties of readjustment will make it very much more difficult than was expected to fulfil these pledges literally. Unless some new equivalent can be found which will convince the members of the Unions themselves that they have gained more than they have lost, there will very naturally be a strong feeling of resentment. There is already only too prevalent a belief that advantage

is being taken of the war to prejudice the position of Labour. Any hitch arising in the restoration of Trade Union "safeguards" will powerfully reinforce this belief. The allegations made by both Employers and Employed that the necessities of the war have been turned to account for the promotion of class or personal interests, the fear that returned soldiers may be used as "blackleg" labour, the fear of the permanent introduction of compulsory military service as a means of strike-breaking and neutralising the power of Organised Labour, the recollection of war-time strikes, will all tend to increase the bitterness of class-suspicion.

(*c*) Psychological Reactions.

56. We have further to face the fact that the discontent due to economic conditions will be aggravated by certain features in the general temper and spirit of the nation.

57. An effort so stupendous as that made during the war is almost invariably followed by a reaction. It is a great thing that the response to the national call should have been as ready as it has, that the Trade Unions should have yielded up their most prized safeguards, that men should have laboured in the munition shops until they dropped at their work, that the Income Tax payer should have submitted without murmuring to an unprecedented increase, that so much thought and effort as well as money should have been poured by the leisured classes into national channels. But all history teaches us that unless this energy and self-sacrifice receives a fresh impetus not less potent than that of the war, the removal of the stimulus will be followed by a dangerous slump.

58. We have to take into account that those who are crushed or hampered by the burdens arising from a war are apt, when they take stock of their position, to lay the blame on those responsible for the Government of the nation during the war, even though they themselves cordially supported the country's participation in it.

59. It must be remembered that, however these burdens may be distributed, "Equality of Sacrifice" is in point of actual fact impossible. The percentage of income reduction which means to one man the giving

up of luxuries and curtailing of travel, means to another shortage in the necessaries of life. The obligation to serve implies in some cases temporary embarrassment and a reduced income ; in other cases it implies selling up the home and business ruin. To the sorrow of those whose relatives have been killed or injured, there is added in many cases the hardship caused by loss of the bread-winner. Great numbers both of the working class and the lower middle class will be hit by the war in a way that those in different circumstances can only appreciate with difficulty. Inevitable as this may be and unreasonable as it may seem that inevitable suffering should result in social or political discontent, it is no use shutting our eyes to the danger that it may do so.

60. There is no doubt that the working of the Munitions Acts and the Military Service Acts, the methods adopted in certain quarters to promote recruiting, the abolition of Trade Union restrictions, the enormous profits made in certain trades, the rise in food prices, have sown the seeds of a great deal of bitterness. Much of it may be unreasonable, much of it based upon demonstrably false assumptions and fanned by unscrupulous controversialists on both sides ; but again we are dealing with facts which must be faced.

61. There is thus no lack of inflammable material ready to the hands of the incendiary. The incendiary is not far to seek and may be found in all classes. It is easy to persuade bitterly discontented men that if society is thrown into the melting pot their condition cannot be rendered worse and may be rendered better. It may be argued that force is no remedy for economic evils and that its application to social questions gives very uncertain results. But such arguments require a clearer atmosphere than that of class-hatred and suspicion and unless a practical and attractive alternative can be offered, there is a grave danger that the extremists may persuade a large following to try the chance of industrial warfare. The danger of an appeal to force in some form is all the greater that the war has habituated men to the idea of conflict as the means of settling disputes.

62. On the other hand we have the danger arising from a reactionary section among Employers, who, like the Labour extremists, believe in the inevitability of

class-warfare. There is a real danger that this section may adopt to some extent the German view of Labour as a force which needs to be controlled and disciplined from above and may regard the war as an opportunity to accomplish this end. There is reason to fear that some Employers look on the Military Service Acts, the State control of war industries and the temporary abandonment of Trade Union restrictions as an opportunity to establish once for all the ascendency of Capital over Labour. It is not desired to question in these pages the necessity of any measure adopted during the course of the war. The gravity of the danger consists in this half-acknowledged intention to use the new conditions which have arisen, for the coercion of one of the parties whose co-operation has made the carrying on of the war possible.

PROSPECTS AS TO SPIRIT AND TEMPER.

63. The combination of economic discontent, class-suspicion, the doctrines of Social Revolutionaries and the danger of Industrial Prussianism, threatens us with a bitter conflict between Capital and Labour which would render it impossible to deal successfully with the problems of readjustment and reconstruction. Only by uniting the efforts of all classes towards common ends, on the lines of a broad national policy, can such a catastrophe be averted.

C.—The Problem and Some Remedies.

I.—THE PROBLEM.

64. The Problem before us has been sufficiently indicated by the foregoing analysis of the dangers with which we are threatened and the difficulties which lie in our way. It is only necessary to summarise it very briefly.

(i) The Emergency Problem.

65. The Emergency Problem is simply to avert an outbreak of industrial anarchy in the period immediately following the war.

66. The urgency of the task can only be measured by the magnitude of the danger. That the possibility, even the probability of such a development is a very real one there is every reason to believe. Whatever the upshot of such an outbreak its effects would be almost equally disastrous to all classes of the community.

67. To Capital it would mean a long period of suspended activity, depreciation and possibly wreckage of plant, heavy financial loss, a fatal handicap in competition with foreign manufacturers. " Victory " would be dearly won at the price of leaving Labour discontented, inefficient, mutinous, ready to renew the fight at the first opportunity. While the questions at issue might be shelved as the result of a Labour defeat, they would not be solved and the increased class hostility generated by the conflict would remain an insuperable bar to the development either of industrial efficiency or financial confidence.

68. To Labour, industrial warfare involves a long period of hardship and privation. Any material advantages gained would be largely discounted by the sufferings to be endured, the depletion of Trades Union Funds and the crippling of the sources of production from which alone the wealth of any class can be derived. Against the prospect of improved working conditions and fuller recognition of the rights of Labour, must be set the risk of internal dissensions arising during a prolonged struggle, and the possible loss of all that has been won in past years.

69. A clear cut victory for either side is improbable. In an industrial conflict on the scale anticipated it is unlikely that the anticipations of either Employers or Employed would be fulfilled. The passions let loose and excited by the losses of Capital, the sufferings of Labour and the hardships arising to the whole community from high prices, scarcity of commodities, dislocation of the ordinary activities of life and destruction of confidence, might easily create a drift towards general chaos which would defy the control of either Capitalist or Working-class organisations. It is not improbable that an intolerable situation would be ended by hasty and ill-considered State action, placing Industry as a whole under the yoke of a bureaucratic tyranny—a sort of industrial Napoleonism.

70. Whatever the event of the dispute, the prize of victory would perish in the struggle.

(ii) The Constructive Problem.

71. The Constructive Problem is concerned with the more lasting effects of the war and with those difficulties, social as well as economic, of our industrial life, which it has accentuated though it has not created. On the one hand we have to readjust and reorganise our industries to meet the new conditions, to provide for replenishing the national capital and maintaining or increasing the national income. On the other hand, we have to remove the evils which have rendered the industrial problem an irritant in our social life, to preserve and strengthen the safeguards of individual liberty and self-respect and to reconcile the conflicting claims of efficient production and fullness of life for the Workers. To do this with success we must face boldly the whole question of industrial policy. We must endeavour to devise some means by which the wasteful friction between Employers and Employed may be replaced by co-operation to secure these national ends and the whole resources of the country directed to promoting the material prosperity and social well-being of all classes of the population.

72. If we can accomplish this we shall not merely have dealt successfully with the situation created by the war. We shall have removed the most serious obstacle to industrial and social development. That the nation

should recuperate quickly, that the national plant should be restored, that capital should be plentiful, that labour should be efficient—these things are necessary in order that we may avert a threatened danger. To secure industrial peace on terms just and honourable to both sides would be to double the national strength whether in industry or in citizenship.

73. It is obvious that much will be gained if we can frame the measures adopted for meeting the Emergency Problem in such a way as will lay the foundations of permanent reconstruction. By so doing we shall wring a definite good out of the evils with which we are faced, and we shall have a double claim on all classes for co-operation and if necessary for concessions—that they may thereby both save themselves from threatened ruin and look forward to a positive gain.

74. In order to deal effectively with either the Emergency or the Constructive Problem, it is essential to keep in mind that both are dual in their nature.

75. On the one hand are the direct economic effects of the war, the difficulties of demobilisation and readjustment, and the diminution of the national income by deterioration of plant, loss of workers and wastage of capital. These effects can be dealt with by special measures framed with a view to meeting specific dangers. Some of these measures will be of an emergency character, having for their object to carry us through the period of transition with a minimum of suffering and friction. Others will be of a more constructive kind, intended to increase our general industrial efficiency and so to neutralise the more lasting results of the war in the direction of diminished production and reduced earnings.

76. On the other hand, there is the fundamental problem of Industrial Unrest, which may be aggravated and brought to a head by the effects of the war, but has its roots far back in pre-war conditions. It can be solved only by a much broader and more far-reaching treatment, based upon a survey not of the accidental circumstances of the moment, but of the permanent factors of our industrial life. Unless this problem is successfully solved, no other steps which may be taken can be relied upon either to avert the immediate crisis or to ensure the future prosperity of Industry.

77. Many of the detailed questions bearing upon the work of readjustment and reconstruction are already the subject of investigation by Government Departments, by well-equipped societies, or by groups of men having expert knowledge and practical experience. It is well that this work should be done by those who have special equipment for dealing with its various phases. But two things require to be kept constantly in mind. First: No single detailed measure however important in itself and however thoroughly it is worked out, will form a substitute for clear thinking with regard to the essential principles of industrial life and a united effort by those concerned to give them fuller expression in their joint activities. Secondly, it is essential to avoid clashing or overlapping by the various movements represented and to give the work of each its proper place and perspective in the wider scheme.

78. For the above reasons we propose to do little more than indicate a number of the more important matters which require study with a view to neutralising the direct effects of the war, reserving for more extended treatment in our final section, the fundamental problem which is both the most important and the least recognised.

II.—EMERGENCY MEASURES.

(i) Demobilisation.

(*a*) The Finding of Jobs.

79. It has been shown that the probable cause of unemployment after the war will be, not the lack of a demand for labour, but the difficulty of bringing together the workman and the job. A nucleus of the requisite machinery is provided by the Employment Department of the Board of Trade; but the emergency will call for operations far beyond the scope of the existing organisation. The creation of joint committees, representing Employers, the Trade Unions and Labour generally, working in conjunction with the Board of Trade, will give the best hope of obtaining the necessary knowledge as to the conditions of demand in particular localities and trades. It should be possible for the Government to obtain a complete, or approximately complete, register of the previous occupations and capacities of the men to be disbanded. A Central Conference composed of representatives of the State, Employers and Labour,

working on the knowledge thus obtained, would be in a position to co-ordinate the work of the various committees and of the Labour Exchanges, and to direct the stream of demobilised men towards those districts and industries where the probability of immediate reinstatement or absorption was greatest. So far as military exigencies will permit, it is very desirable that workers for whose services there is an assured need should be the first to be disbanded, and that an early discharge should be given to those for whom situations are actually waiting. Above all, it is vitally necessary that the preliminary work of investigation and the creation of machinery should be pushed rapidly forward, in order that there may be no delay or uncertainty in taking action when the time comes for disbandment.

80. Even with the most complete machinery that can be devised, it is difficult to see how a certain amount of temporary unemployment can be avoided if we are content to rely entirely upon the ordinary course of relations between demand and supply. This margin of unemployment could, however, be largely reduced if not extinguished, by State and Municipal expenditure upon works of public utility. Such a policy will need to be carried out with care and closely watched from the standpoint both of public economy and industrial conditions. Employment of this nature can never form a permanent substitute for that arising from industrial activity and it would be worse than folly to keep men engaged upon Government or Municipal work when the industries of the country were ready to receive them. All such work should therefore be undertaken in close co-operation with the Employment Department of the Board of Trade and the local Committees representing Employers and Employed. It should also be confined to work of definite utility and as far as possible to undertakings of a productive nature or connected with the restoration of the national plant. At the same time it would be legitimate to anticipate to some extent work intended to be done in the near future, in order to give employment at the moment when it is most required. There is a large amount of really valuable work to be done in connection with housing, the repair and improvement of roads, afforestation, the reclamation of waste land, etc., which would prove a sound investment both from the social and economic

point of view, and which the training of the returned soldiers in trench warfare would have fitted them to accomplish efficiently.

(*b*) The Assuring of Decent Wages.

81. We shall undoubtedly have to meet a demand that men returning to civil life shall be placed in a position no worse than that which they occupied before the war. Since the cost of living has risen and will remain high, this will involve a demand for proportionately increased wages. In the case of men who have been guaranteed re-implacement, it is desirable that employers should take this change of conditions into sympathetic consideration. Men who do not return to a specific job but who work at a staple trade will, of course, look for the standard rate of wages current at the date of their return. Any attempt to use ex-service men as a means of substituting the old rates of wages for those which have been granted to meet the increased cost of living, would certainly arouse resentment and might very well give rise to serious trouble.

82. In the case of those trades in which organisation is but feeble and in which standard rates of pay can hardly be said to exist, it is probable that improvement could be secured by the application to them of the Trade Boards Act. Experience has shown that the fixing of minimum rates under this Act has had a beneficial effect on the wages paid, and that the increases so secured have raised the workers affected just above that margin where they become capable of organising and securing fair conditions of employment for themselves. The fixing of minimum rates in certain trades has also had a stimulative effect upon workshop management in those numerous cases where the methods and organisation were such as to leave room for an improvement out of which the increased labour charge could be recouped. Direct legislative action of this character could be taken in addition to no less important measures for the training of those who are employed in, or might otherwise enter, low paid occupations—measures which are not only of direct value to those immediately affected, but also of indirect value in mitigating the rigour of competition among the remainder. A Minimum Wage law is a powerful instrument for achieving improvement and should not be neglected, but it is well to recognise that

its indiscriminate application might be attended by certain risks. There is in many trades a margin of unexhausted possibilities which a wisely fixed minimum wage would do much to utilise. Beyond such a margin a minimum wage would represent an increase in the cost of production and selling prices, and might simply become a tax on the community as a whole for the benefit of the workers in the particular trade.

83. The whole question of wages is very closely related to the larger problem of Industrial Unrest. If the mutual hostility of Employers and Employed can be replaced by a spirit of co-operation based on mutual understanding and agreement, there will be less likelihood of friction over details of the wage question and a better chance of an all round improvement in the condition of workers, due to increased efficiency in production.

(*c*) Settling Men on the Land.

84. The settlement of returned soldiers on the land is desirable from many points of view. It might retain in this country men unwilling to return to sedentary occupations, who would otherwise emigrate; and, if successful, would tend to render the country more self-supporting and to improve the national physique. It would, therefore, conduce both to the efficiency of national defence and to social welfare. The respective advantages of State, local and co-operative settlements, the desirability of ownership or tenancy of small holdings —all these matters are already receiving the careful attention of experts. It is doubtful, however, whether sufficient consideration has been given to the question whether the end desired can be best attained by organised settlement of individuals or groups on created holdings or by so promoting the prosperity of agriculture generally and its *status* as an occupation, that men will be drawn to it by economic and social attractions. Probably both means may usefully be employed, and attention should not be concentrated on one to the exclusion of the other. The problem of agricultural credit, whether on a co-operative basis or otherwise, is an important phase of the general question of land settlement, which must not be overlooked.

(*d*) Teaching Men Trades.

85. In the reinstatement of demobilised men and the adjustment of labour to the new conditions, large

numbers of skilled workers may find themselves compelled to seek employment in trades for which they have not been trained. To allow these men to sink into the ranks of unskilled labour would be manifestly unfair to them and harmful to the community. It will therefore, be necessary, as soon as the Board of Trade Employment Department is able to forecast with some accuracy the directions in which demand is likely to be brisk, to make preparations for teaching men those trades in which there is the best prospect of employment. Of less economic importance, but a debt of honour which the nation must not forget to pay, is the obligation to teach men who are prevented by partial disablement from following their old occupations, some trade within their present capacity.

(*e*) The New Workshops.

86. Although the plant normally employed in many industries has been allowed to fall, to some extent, into disrepair, a great deal of new plant has been created for the purpose of making munitions. Much of this, though unfortunately by no means all, is convertible for the purposes of civil industry. Part of this plant is in the hands of private owners who will, in the ordinary course of business, make the utmost possible use of it for industrial purposes. Much of it, however, is in the new factories and workshops owned by the State. Of these some may be permanently retained by the Government for the manufacture of war material. With regard to the rest, it will be a question how far they should remain under State control and how far they should be sold to private firms. The former course would not necessarily involve the entry of the State into competitive industry. The new workshops could be used for the manufacture of plant and appliances used in the work of Government Departments, such as telephone, telegraph and Post Office equipment. Since this course would involve the maintenance of a permanent staff, it would not perform the function of steadying general employment or providing temporary relief during the period of transition. But it might enable the Government to offer immediate and permanent employment at standard wages to some demobilised men who had lost their old jobs and were prepared to undergo training for new tasks. It is at least possible, however, that sale to private

enterprise would result in more efficient use being made of the plant. The knowledge acquired departmentally as to the adequacy of existing plant in the various industries to meet probable requirements may be used as a guide in considering the question of transfer. In many cases it is probable that the cost of conversion would be such as to make economical working impossible, and it will be necessary to be careful lest reluctance to scrap State owned property should result in ill-advised and wasteful attempts to use it for the fulfilment of Government orders.

87. On the cessation of hostilities, it will be possible gradually to reduce the production of munitions and military material to a peace level. There will, however, be an immense *vis inertiæ* to be overcome, tending to keep a high proportion of our productive power engaged for months after the war on munition work. It is not easy suddenly to stop or divert the activities of so powerful and so highly organised a machinery as that controlled by the Ministry of Munitions. Many firms will be interested in the continuance of profitable contracts. Many people will be interested in the retention of secure and well-paid employment. There will be a natural tendency to continue automatically the expenditure of unexpended votes. Varying estimates will, no doubt, be formed as to the proper standard of peace requirements. At the same time, it is essential that, without prejudicing the requirements of national defence, we should act promptly and vigorously in switching off munition work, scrapping what is half-done and readapting our industrial plant to the uses of peace. In all the metal industries there will be an abundance of orders waiting for execution and it depends upon the rapidity with which we effect this transference of effort whether we get these orders before they have gone elsewhere.

(ii) The Exodus from the War Industries.

88. The problem of providing peace employment for those who have acted during the war as stop-gap and emergency workers will be of less magnitude than that of reinstating the returned soldiers ; but it will none the less be a formidable one. We have seen (paragraph 19) that the total number affected will probably fall little short of a million and a half, about half of whom will be

women and girls. This total may be divided into several classes, both as regards the nature of their employment and the problem which they will present on a return to peace conditions.

89. The necessities of the war have resulted in the employment of a large number of additional workers in the munition, equipment, chemical and other industries, either for the purpose of making material of war or to supply the exceptional demand for labour created in certain trades by the circumstances of wartime, such as the cutting off of imports from abroad. The great majority of these have left other employments, either because trade was slack in their own line, or because of the higher remuneration or greater attractiveness of war work. Most of those who have done so may be expected to gravitate back to their former occupations ; but not all will find it possible to gain immediate reinstatement. A large section consists of married women, more particularly of women whose husbands are with the Colours, who have returned to industry during the war. The majority of these will doubtless return to domestic life ; but many of them may be compelled to continue as wage earners, or may desire to do so. A further section consists of girls who would in the normal course have entered industry during the period of the war, and whose circumstances will certainly require them to seek other paid occupations when their war employment has come to an end.

90. In addition to those who have been added to the number employed on special industries, many women have gone into factories, shops and offices to take the place of enlisted men. A large proportion of these are young women who would not, in the ordinary course, have sought for paid employment. Here again, it is probable that a certain number will withdraw from industry when the national emergency is passed, but that a large number will remain as wage earners, either from necessity or from preference. There are also a considerable number of former domestic servants, some of whom will desire to retain the greater freedom and higher remuneration of their new occupations. Such women, whether they have taken the place of enlisted men or have been employed on munition work, will present a difficult problem ; for they have had no pre-war industrial training and the instruction which they

have received in the performance of specialised tasks will not be of much service in securing employment when war work comes to an end, or the men whom they have released return. It is probable that a more scientific organisation of office-staffs may find a permanent place for some of those who have entered on commercial life ; but the greater number of these new workers will have to look for industrial employment, and unless a satisfactory method of dealing with the difficulty can be found, there is grave danger of their drifting into the lowest grades of unskilled labour or the ranks of the unemployed.

91. Finally, there remains the problem of boy and girl labour. During the war, many children have become wage-earners before arriving at the statutory working age, and have been put to work in which they have no future, and are receiving very little instruction of general utility. In the case of these juvenile workers the primary necessity is to make good the interruption of their education, both general and vocational.

92. The general situation with regard to stop-gap and emergency workers will be somewhat relieved by the fact that many women who would normally have quitted industry for domestic life have deferred doing so until after the war. The places vacated by them will be available for those who are returning to ordinary employment from the war industries. In the main, however, the problem is similar to that of demobilisation, and must be treated on the same lines. As in the case of returned soldiers, the transition may be eased by Government orders for reconstruction work and for undertakings of national utility. The special difficulties presented by the case of the new women workers, with no previous industrial training, and the boy and girl labour taken on for war purposes, will require separate treatment. The only way in which these workers can be raised above the level of unskilled Labour or assured permanent work, is by the adoption of a comprehensive policy of technical and vocational education, directed to fitting them for those trades in which there are the best prospects of employment.

(iii) **Industrial Friction.**

93. Whatever emergency measures may be adopted, the avoidance of friction depends upon an agreement

between Labour, Management and Capital as to the future organisation of industry. Such an agreement must be based on frank recognition of the existing grievances of all parties and can only be attained by bringing home to the minds of each class the dangers arising from conflict and the advantages to be gained by co-operation. The possibility of such an agreement will be discussed in the concluding section of this Memorandum.

III.—CONSTRUCTIVE MEASURES.

(i) Industrial Efficiency.

94. The first essential of Industrial Efficiency is the will to produce, which can only be obtained by providing sufficient incentive and promoting confidence. It is therefore dependent upon a satisfactory solution of the fundamental problem.

Subject to the satisfaction of this primary requisite, much may be done to promote efficiency by an all round improvement in our industrial organisation. A number of practical steps in this direction are suggested below.

(*a*) *Physical Efficiency.*

95. The basis of all national progress, whether industrial or social, is the health and physical efficiency of the people. Any improvement in this respect must be sought along two lines—the improvement of conditions and the spread of knowledge. The conditions which exist at present in the over-crowded areas of our towns and in many of our villages render healthy life impossible. The progress of physical degeneracy must be arrested by increased attention to the care of child life, the improving of housing conditions, both in town and country, and the creation of open spaces. These steps are essential not merely to the efficiency of the working class, but to the health and character of the nation. Closely connected with this question is that of healthful conditions of work. Not only justice and humanity, but sheer economic necessity should prompt us to enforce strictly all regulations of factory and other work in the interests of health, cleanliness and decency. It is equally important that ample opportunities and facilities should be afforded to all industrial workers for rest, recreation and exercise. Neither efficient workers

nor healthy and self-respecting citizens can be obtained if any part of the community is denied access to the materials of social life. The assurance of a minimum standard of maintenance, enabling sufficient food and clothing to be provided for every member of a family, is bound up with the question of wages and must be taken into account in any consideration of that question. While the difficulties in the way of establishing a general minimum wage by State action are great and probably prohibitive, the wage rates in any trade should bear a definite relation to the cost of living. A healthy public opinion and the common sense of employers should both be brought to bear upon the dangers arising from an inadequate standard of life. To ensure full value being received for the money spent on food, the laws against adulteration should be strengthened both in their provisions and enforcement. Adulterated food and impure milk are still responsible for much malnutrition. All these questions of conditions are fundamental and unless they are attended to, we can look for no great progress ; but in order to obtain the best results a simultaneous effort must be made to extend knowledge and training. The work already done in the schools in the direction of physical training and the teaching of elementary hygiene, is excellent ; but with greater national attention to these subjects, resulting in further financial provision, it could be largely extended. The same remark applies to the teaching of domestic economy. While the workers are rightly suspicious and resentful of grandmotherly interference, an infinite amount of waste and loss could be saved by spreading among all classes a sounder knowledge of how to lay out the family income and employ the domestic equipment so as to obtain the best return. No class is free from the reproach of wasteful expenditure and inefficient methods and a knowledge of simple facts in elementary economics should form part of the teaching in all schools.

(*b*) *Mental and Manual Efficiency—The Primary Schools.*

96. The foundations of mental and manual efficiency must be laid in the primary schools. There is observable among some industrialists a recurring tendency to regard all but the barest rudiments of general education as useless and even injurious to the average run of working-class children, and to urge that at an early age

all but the most promising should be trained solely with a view to fitting them for a specific occupation. This course, however, is open to serious objections, both from the social and from the industrial point of view. The effects of technical instruction at a very early age are undoubtedly injurious to mental development. It must inevitably be acquired mechanically and without understanding, and the cramping effect of a purely utilitarian education upon intelligence and character renders it a poor preparation even for industrial life. From the social standpoint there are grave disadvantages, both to the working class and to the community as a whole, in restricting the education of any children to their training as operatives. At the same time, the connection between the general education given in primary schools and industrial efficiency is close, and may be rendered still closer. The modern educational systems, which aim at fostering the child's intelligence and developing its powers of self-expression, even more than at imparting instruction, can be made to form the best possible basis for subsequent specialised training. At present the elementary schools still suffer to some extent from the pressure of stereotyped codes laying an undue emphasis on " book-learning," and the development of the child-mind is too often choked by cramming in the upper standards. What is wanted is not that those who have the welfare of the industrial class at heart should seek to limit the time and attention given to general education, but that they should ally themselves with those educational reformers, within the schools as well as outside them, who are striving to simplify the curriculum and to lay increased emphasis on the formative side of education. Special attention should be given to that part of the course which is devoted to bringing out the child's powers of observation and placing it in an intelligent relation with its environment. The " eye and hand training " which already forms a large part of the work is capable of great extension. To confine it to preparation for any particular trade would be to rob it of most of its educational and much of its industrial value. Its purpose is to perfect the instrument of which subsequent vocational training will teach the use. Experience shows that instruction in any subject is acquired more quickly and more thoroughly if it is postponed until the mind and senses of the child have been thoroughly and painstakingly

prepared to receive it. Education along these lines will produce at the same time efficient workers and intelligent citizens; and the development of the communal and team spirit, by the organised games which are coming more and more into favour, will play its part in both these relations. Our hope for the future must lie largely in co-operation between the industrialists and sociologists, who can best indicate the national requirements, and the practical educationalists who are entitled by training and experience to indicate the methods of attaining them.

(*c*) *Mental and Manual Efficiency—Continuation Education.*

97. The work of the primary schools must be carried forward and developed by the improvement of our system of Continuation Education. There is no greater source of national waste than that which takes place by the premature withdrawal of our children from school life, just at the age when they are best fitted to profit by it. The figures in this respect are so startling that they are worth quoting. In England, out of two and three-quarter million boys and girls between the ages of 12 and 16, nearly 1,100,000 get no further education after the age of *thirteen.* Of the remaining 1,650,000, the great bulk are educated, mostly in the elementary school, only until the age of fourteen. Only 250,000, or one in eleven, go to proper secondary schools, and in most cases they are there only for a short time. These figures make it easy to understand the superior success of Germany in so many departments of activity. That success is not due to the character of the education received by young people in Germany. It is due to the fact that so very much greater a proportion of young people in that country receive any systematic education at all during the all-important years between 14 and 18. The same is true of University education which, whatever its quality, is far more widely diffused in Germany than in this country. Both for the sake of the future of British Industry and from the poin of view of the development of intelligent citizens, it is essential that means should be found by which general education can be continued after the close of the primary school period. This is the more important because the conditions of modern industry are such as to make it impossible to rely on apprenticeship as a generally satisfactory method of industrial training. The methods of attaining the desired end remain to be considered.

Evening Classes.—Continuation education in this country has for many years past existed in the form of evening schools. These have rendered much good service, but attendance has been voluntary and the number of students has always been small in proportion to the whole number of juveniles employed in industry. Moreover, attendance at an evening school for one, two, or more hours, after a 9½-hour day in the works, puts a heavy strain on mind and body, and in the case of the keenest and most promising youths, has often resulted in complete breakdown. Evening classes are thus open to serious objection and further progress can hardly be expected from a development of the system.

Part-Time Day Schools.—The method of evening schools having been found unsatisfactory, should be replaced by a system of compulsory part-time day Continuation Schools for all young persons between 14 and 18 who are not receiving whole-time education. Employers, as a whole, must be required to follow the example already set by many among their number, who allow their young employees a substantial period every week for attendance at school. These Continuation Schools, if they are to do the best for their pupils, must not be purely technical or specialised in character, but must continue the general civic education from the point where it was left at the primary school, and must lay due stress on the physical side of development and on the corporate life which is the essence of the " public-school spirit " in the schools of the well-to-do for boys of the same age. Education at this stage must still be primarily formative in its purpose : and it is because British schools of the older type have always kept this larger aim steadily in view that they have developed the qualities of adaptability and initiative which the war has revealed. The true period for specialisation and the perfecting of industrial, as of professional training, is after the age of 18 for it is only then that most young people become fixed in what is likely to be a life-long occupation, and have the necessary knowledge and general equipment to understand the bearings of the special work which falls to their lot. For this specialised training the part-time school, with skilled craftsman teachers, afford the best opportunity. The combination of vocational instruction in the case of younger pupils, who have developed a special bent towards any particular craft, with the continuation of their general

education, is already provided for, to some extent, by the Junior Technical Schools which have been established in many of our large towns.

The Universities.—Much more could also be done to bring the University life of the country into closer touch with the professional and industrial classes. A University should not only be a training ground for the recognised professions, but a centre of research in connection with the industries of the country. Moreover, it has a distinctive and peculiar part to play in what has come to be termed the work of adult education. It should form a meeting place for those engaged in every department of life, and the natural home of the thought and discussion of the country on public affairs. Used in this spirit, the Universities should go far to redeem the country from the shallow and sectional discussions which have disturbed it in recent years.

(*d*) *Labour-saving Machinery.*

98. There is no question that an increase in the industrial output could be obtained by a wider utilisation of labour-saving machinery. From the Employers' point of view, the cost of an improvement of this kind in existing plant would be repaid in a very short period and would yield a high return on the capital invested. The Workman, however, usually resists and obstructs, or, at any rate, resents its introduction, and before such extension can be advocated as an item in the programme of reconstruction, the grounds of this opposition must be examined from the point of view of the Men as well as of the Employer.

99. The strongest form assumed by this hostility rests upon a human and not upon an economic basis. It arises from a profound dislike of seeing handicraft replaced by the machine and the craftsman relegated to the position of a machine minder. The argument that the use of automatic machines will increase output leaves this objection untouched, because the question is not one of the worker's remuneration but of his position and self-respect. The tendency of work under modern conditions to become a mere mechanical routine and of the worker himself to become dehumanised during his hours of labour is at the bottom of the wide-spread intellectual revolt against the industrial system. This feeling is not only a natural one, but is based upon

sound instincts. It must be taken fully into account in any discussion of the subject.

100. It will be admitted by most of those who have thought upon the question that a complete return to the old conditions of handicraft is impossible. It cannot, at any rate, be contemplated as a practical programme for the near future. The conditions of modern life involve an ever-extending amount of repetition work done to precise measurements. In work of this kind, whether it be done by hand or by machinery, there is little room for exercise of the higher faculties of craftsmanship. The defence of labour-saving machinery from the human standpoint is that it removes the sheer muscular drudgery from such work and enables a greater amount to be produced in shorter hours and with less strain and exhaustion to the worker. Moreover, the increased complexity of machinery is continually operating in the direction of restoring the balance, by calling upon the operator for a care and a degree of skill approaching more nearly to craftsmanship. This tendency would be largely fortified if more care were taken to explain to operators the purpose of their task, and the part it plays in the process of production. There is no reason why even the unskilled labour connected with labour-saving machinery should not be based upon a foundation of intelligence and responsibility in the worker which would preserve his self-respect. Nor must it be forgotten that the construction and maintenance of labour-saving machinery gives rise in itself to the employment of a large amount of highly skilled labour.

101. The chief economic objection of the worker to the introduction of labour-saving machinery arises from his belief, unhappily founded on experience, that its immediate effect is to lower his wages or deprive him of his job. With some qualifications, this objection is well-founded. That such a result is not invariable arises partly from the fact that many labour-saving machines are very costly, so that a wise employer will offer a journeyman's wage to anyone who will work them to their full capacity, rather than pay a labourer's wage for them to be worked at half or two-thirds capacity. Moreover, the ultimate effect of labour-saving machinery is to lower the price of the article produced and thereby to increase the demand for it, which, in its turn, will react upon the demand for labour. It remains no less

true, in the main, that when a craftsman's job passes to the machine, that special skill which is his sole stock-in-trade loses its monopoly value and he stands in danger of sinking from an employed craftsman to an unemployed labour unit.

102. The existence of cases of individual hardship does not, however, prove that the introduction of labour-saving machinery is, in the long run, economically injurious to Labour as a whole. That such cases of hardship should arise is inevitable in all industrial progress, as well as in every other department of life. Any sudden change in industry, whether due to new inventions, to fashion, or to changing conditions with regard to markets or raw material, involves a similar displacement. To resist the forces of change is impossible, and the attempt to retard them is generally productive of waste and friction. The better course is to develop the new trade or system rapidly and efficiently and at the same time to do all that is possible to bridge over the period of transition and protect the individuals affected. In the case of labour-saving machinery this duty is particularly incumbent upon the employer, because the change is one introduced by him for his own profit. It is his duty so far as possible to provide alternative work for the men displaced, to take advantage of the normal fluctuations of staff to spread out the period of reduction, to allow time for men who cannot be retained to find another job. The only course, however, which will go to the root of the opposition to the introduction of such machinery, is for the employer to take the workers into his confidence ; to explain to them what is proposed ; to discuss with them, through their representatives or their Trade Union, the machinery required to meet the demands of competition, the rate of its introduction, the conditions under which it is to be worked and the wages to be paid to the operators. It is only by the co-operation of Employers and Employed to introduce and use labour-saving machinery as a means of increasing efficiency of production, and not merely for the purpose of cutting down wages while increasing profits, that the advantages to be derived from its use can be attained with the minimum of dislocation and loss to individuals. At the same time a better system of education, tending to produce all-round competence and adaptability, would go a long way towards placing the worker above the prospect of disaster due to a change in conditions.

(e) Works Organisation.

103. No method of increasing output is more promising in theory than that known in America as " Scientific Management " ; but none is more open to abuse and frustration in practice. It is based on the conception of a works in which the whole routine, down to the last detail of every operation, is organised by the management, acting through a staff of efficiency experts. So far as concerns the " routing " of work through the shops, no objection can arise. Confusion, over-lapping, delay and waste are avoided and the course of the work is made to run smoothly and rapidly. These are true functions of Management, and the more thoroughly they are performed the more efficient will be production and the less the strain on the workers.

104. With regard to the functions of Labour, the methods of Scientific Management are more open to question. The idea is to analyse and time the physical movements made in the performance of each operation on every job ; to reduce each task to its simplest elements ; to construct a routine from which every superfluous effort or movement is eliminated ; and to train workmen to follow the prescribed schedule as a coach might train a boat's crew to use their oars. The reactions of environment and the limitations of fatigue are studied ; no overstrain is allowed ; rest periods are provided. An astonishing increase in output can be achieved along these lines ; so that unprecedentedly high wages can be and are paid to those who will work under the system. Nevertheless, it is regarded with profound dislike and distrust by the general run of workers, and in a great many cases attempts to put it into practice have had to be abandoned.

105. The reason usually given by the men for their hostility is that the employer, while paying higher wages, takes care that a much more than proportionate increase is effected in his own profits, so that the ratio of distribution becomes less favourable to Labour than before. But this, though a natural ground of soreness, is not the main reason for the workman's opposition. Underlying all economic suspicion is the worker's instinctive aversion to becoming a mindless automaton, performing without variation a cycle of mechanical movements which do not lead to increased general proficiency, which open the way to no higher grade of employment, and which are prescribed not by himself or by the traditions

or master-craftsmen of his class, but by an outside and unsympathetic authority in the shape of the scientific expert. Before the undoubted advantages of motion training can materialise in workshop practice, full security must be given against these evils. This can be done only by introducing the system with the full voluntary co-operation of the men ; and such co-operation can only be secured by first putting the whole proposition before them, explaining frankly the risks to be faced as well as the benefits to be obtained, and transforming the whole constitution of the works in such a way that the men themselves may have an interest in the new system and some share of control over the working of it.

(f) Labour Legislation.

106. It is clear that organised bodies of workers and employees must in the immediate future play a greater part in determining the policy and direction of our economic life. Many industries, however, are not well organised ; and only a quarter of the whole working population is enrolled in trade unions. The greater portion of the unorganised workers are women, young persons and children, whom our labour laws are largely intended to protect. Whatever may be said in favour of voluntary agreements, it is inevitable that the protection of women and young people must for the time, be in large measure left to the State. The first need is for a revision of our whole code of labour laws with a view to their co-ordination and the eradication of those anomalies and historical accidents, which for no real reason establish different standards and conditions for protected persons. In the second place, there is a strong case for a further limitation of hours in the case of employees in factories and workshops, and distributive shops, and for a very considerable improvement in the environment in which work is carried on. Far healthier workplaces, the provision of dining and rest rooms, are absolutely necessary in the interests alike of industrial efficiency and of social welfare. In general, it may be said, that our Labour Legislation should be thoroughly overhauled and strengthened to meet the demand for a higher general standard of life, in such ways as will increase the self-respect, dignity and efficiency of the protected workers. The whole task of bringing our industrial legislation on all sides into conformity with the new national needs, should

be undertaken with the active co-operation of Labour and Employers ; indeed, all modifications and developments should be based in the first place upon the joint recommendations of Employers' Associations and Trade Unions.

(*g*) *Reform of the Patent Laws.*

107. The original purpose of the existing patent laws was (1) to promote the commercial development of inventions, by giving the inventor a monopoly in the patented article for a term of years ; and (2) to ensure a full account of the invention being published, in order that when the monopoly period expires, anyone may be in a position to make, sell or use the patented device or process. As they stand at present, the laws do not adequately fulfil these intentions. It is becoming increasingly common for patents to be obtained or acquired for the sole purpose of preventing development, in the interests of an existing process. The fees charged also require revision. Many minor inventions though important as far as they go, and entitling the inventor to the protection of the patent laws, will not yield a return proportionate to the heavy fees demanded in the later years of the term. Moreover, the effect of high patent fees is to place the inventor, if he is not a rich man, at an unfair disadvantage as compared with the capitalist, though both are equally necessary to placing the invention on the market. There is a tendency to forget that what the inventor gives to the community in exchange for a temporary monopoly is an account of his invention from which the community derives permanent benefit. To consider patent fees merely as a source of revenue is, in the long run, economically unsound. There is every ground for believing that the pre-eminence of America in the production of ingenious small tools and appliances is mainly due to the superiority of her patent laws. The whole matter requires careful reconsideration from the threefold point of view of stimulating invention, encouraging production and the protection of the consumer. An effort should especially be made to devise some means whereby patentees of small means can obtain guidance assistance and protection in the commercial development of their inventions.

(*h*) *The Encouragement of Research.*

108. The encouragement of Research in connection with the application of Science to Industry holds out

possibilities hitherto better appreciated by our commercial rivals than by ourselves. The war has called attention to the advantages which the Germans, in particular, have derived from their admirable organisation of practical scientific training, especially in connection with the chemical industries. For industrial purposes research may be classified under two headings—Theoretical Research of a general nature, having no obvious and immediate practical application, and Specific Research directed to the solution of definite problems of production. Neither kind can be safely neglected. The experiments of pure scientists have often led to discoveries of high commercial value which were wholly unlooked for by those who made them. The encouragement of Theoretical Research, which may yield results of national utility, is a proper object for State action. Specific Research, the results of which will be capable of immediate commercial application, can best be carried on in close connection with the industries concerned. It would be well worth the while of big Employers' Associations to subsidise research on problems connected with their industry at Technical Colleges or Municipal Laboratories in the leading centres of industry, on the understanding that the results obtained were communicated solely to members of the Association. Such subsidies might even be extended to research of a more general character, in any field touching the materials and processes of the industry in question. The results obtained by the scientific experts could then be submitted to the staffs of works laboratories, who would at once recognise the commercial possibilities which they might hold and could refer them back for specific research along the lines indicated by their practical knowledge and experience.

(*i*) *Improved Methods of Distribution.*

109. What has been said thus far has had special reference to manufacture; but efficiency in the distributive side of industry is no less important. To produce a good article at a moderate cost is not enough; the process is only complete when it has been delivered to the customer. Both transport and selling methods in this country are capable of improvement. The question of transport is of special importance in the case of agriculture, the development of which has been gravely hampered by the lack of railway or motor facilities. Both in

regard to agriculture and manufactures, the extension of these facilities and the fixing of rates require close attention on the part of traders, the railways and the State. The system of co-operative collection and distribution by means of light railways and motor services, which has been so successful in Ireland, could in many cases be usefully applied for bringing local products to the market. The arts of selling, publicity, window-display, delivery, careful study of the requirements of the public, the personal element in service, the training of commercial travellers, all require increased attention. The planning and equipment of shops and offices, the training of the staffs and the organisation of routine are as important as the equivalent processes in manufacture ; and as in production, the best results can only be obtained by fostering the intelligence and initiative of employees and cultivating the " team-spirit." At the same time, the services of the specialist, the advertising or window-dressing expert, are as important to the distributive business as those of the scientist and inventor to the manufacturer.

(*k*) *Banking and Credit Facilities.*

110. The solid and cautious policy of British Bankers has been a main foundation of the general financial soundness which has made this country the credit centre of the world. It would be an irretrievable loss if their reputation in this respect was allowed to suffer. Nevertheless it is probable that they could afford greater assistance to Industry than they have done in the past, without running such risks as would in any way jeopardise their stability. In view of the probable necessities of the situation, it is very desirable that the leading bankers should study for themselves how far it may be possible for the Banks to *work in closer touch* with Industry and lend their invaluable support to its future developments.

111. The condition of Industry after the war will render it particularly desirable that the centralisation of Banking by the large Joint-Stock Banks should not be allowed to hamper the discretion of trustworthy Branch Managers in making the local advances on the strength of non-paper collateral and of established character which were a useful feature of the older system. A wise use of this power would enable the Banks to render valuable assistance to traders, without involving the disadvantages inherent in the German conception of the relations of Banking and Industry.

The Danger of Panic Economy.

112. In connection with the above points, as well as with those embraced under the heading of Emergency Measures, it will be necessary to exercise great care that a reaction from the lavish spending necessitated by the war does not lead to an outbreak of panic economy in State expenditure. Nothing could create a worse feeling and temper than any appearance of stinginess towards the men who have fought for us, whether in connection with the treatment of the disabled or the schemes for reintroducing the demobilised men to civil life. These are matters of national responsibility which cannot be left to any private efforts involving the stigma of charity. Nothing could be a more false economy than to allow the work of education—technical or general—scientific research, housing or the improvement of the national health to be obstructed at a time when the whole welfare of the nation turns upon increased efficiency. Money spent for these purposes is not expended on a luxury, but is a paying investment, perhaps even an insurance.

(ii) Increased Saving.

113. Capital for the repair and improvement of the national plant and the reconstruction of devastated areas abroad—which will provide work at home—can only be furnished by people producing much, spending little on consumption of goods, and saving the balance.

114. There is real need for an educational campaign to explain the principles of economy, whether with regard to spending less or spending more wisely. Such questions as the comparative effect upon employment of expenditure upon luxuries and investment in productive industries are very little understood. There is a vast amount of wasteful expenditure by the rich which is either due to sheer thoughtlessness or is excused by the assumption that it "makes work." There is also a great deal of wasteful expenditure by the poor, which is due either to lack of training in household economy or to unfavourable conditions.

115. It is necessary to bear in mind that the saving and investing class is composed at the present time almost exclusively of the comparatively well-to-do. If any agreement for the settlement of industrial difficulties is arrived at which results in a wider distribution of wealth, it will be necessary to consider what can be done

to make working-class investment, whether by individuals or groups, easier, safer and more attractive. The Co-operative movement, Mutual Insurance and Friendly Societies, and the management of existing Trade Union Funds may supply hints as to the best means of attaining this end.

116. There is a danger to be avoided in urging working class "thrift." The man who stints himself or his family in the necessaries of physical, intellectual or emotional life is rendering no service to the nation, whatever capital he may accumulate. Up to a certain point the unstinted consumption of the material of life is of definite value in producing industrial efficiency and capacity for citizenship. But with increased income and a better acquaintance with the right use of wealth a point is reached at which an increasing margin becomes available for legitimate saving. It is probable that a greater feeling of security and responsibility would of itself lead to the useful employment of this margin.

117. In the immediate future, however, the savings necessary for capital renewal will have to come mainly from restricted consumption on the part of the well-to-do. The cutting down of expenditure on luxuries not only liberates labour for the increased production of necessaries, but renders capital available for investment in productive industries. Economy of this kind does not diminish the total demand for goods or labour. Even if the money be left in the bank, it is used as a basis for the credit needed for industrial development, and sets up a demand for the instruments and materials of production. The volume of demand is not affected, but only its character.

(iii) **Assured Markets.**

118. Assured Markets are essential to steady production. They will be found by British industry (*a*) in the Home Demand; (*b*) in the Overseas Dominions; (*c*) in Foreign Trade.

(*a*) Home Demand.

119. The Home Demand depends first of all upon the general prosperity of the people. If confidence and credit are maintained and earnings are large, the increase of spending power will be reflected in a brisk demand for goods. In this connection the question of agricultural development, discussed below, is important, as tending to increase the spending power of a large number

of people who have hitherto formed one of the poorest sections of the home market. For the first few years after the war the general demand should be guided and restrained by the need of increased savings, necessitating moderation in consumption as well as increased output. The use of these savings for the renewal of the national plant will, however, create a strong demand in those trades concerned with the manufacture of the instruments of production. As soon as the process of capital renewal has been accomplished, the special necessity for restricted consumption will cease and the demand will become general, the annual balance of production over consumption serving for the requisite additions to capital.

120. The idea of securing the home market to home manufacturers by levying a duty on competitive imports is an attractive one from many points of view, and the circumstances of the war will give occasion for new arguments in its favour. The anticipated danger of dumping by German or American firms, anxious to get a footing in the market during the period of readjustment, the desire that this country should be independent of foreign nations in respect of vital industries, the means afforded by a tariff for raising additional revenue and the persistence of war passions, will all go to make the setting up of protective tariffs more alluring.

121. It has none the less to be remembered that protective duties have grave reactions and are hedged about with possibilities of abuse and failure. The difficulty of devising a scheme which will avoid the danger of raising the cost of living out of proportion to the possible increase in wages and shifting the financial burden from the shoulders of the income taxpayer to those of the consumer, has not yet been overcome. There is a further risk that the imposition of a tariff may cripple our export trade by raising the price of raw materials and production and shake our position as the *entrepôt* for the world's products and the centre of the carrying trade. So far as Germany is concerned, the fear of dumping is probably, in large part, illusory, having regard to the cutting off of her supplies of raw material during the war and the excessive drain upon her labour resources. The stability of our financial position during the war, as compared with other belligerents, may lead us to pause before we abandon the system under which our industries have developed. At a time when boldness and initiative on the part of our leaders of industry

are particularly called for, it seems specially unwise to provide an artificial shelter from competition.

122. In considering the argument on either side two things must be kept in mind. First, that important as the Tariff question is, it cannot in any case be the primary one. To say this is not to pre-judge the Tariff question. Whether under a Free Trade or a Protective System, the first necessities of the situation will be increased output and industrial peace. The experience of many years, in this country and in America, has shown that under neither system can these essentials be depended upon, unless a bold attempt is made to grapple with our internal difficulties. Secondly, every claim for a tariff must be considered not only from the point of the industry affected but from that of other industries, of the consumer and of the nation as a whole. On this larger survey, it may prove impossible for even the advocates of tariffs to ask for protection in particular cases or for even their opponents to resist them in others. But it is exceedingly important that in every case the grounds on which the tariff is claimed should be clearly understood, and that if protection is granted to any particular trade from considerations of national defence or political desirability, it shall be granted *on those grounds* and without any obscuring of the economic issue.

(*b*) Empire Markets.

123. The question of Imperial Fiscal Union will be argued on the same grounds as before the war. The desire for the closest possible union with the Overseas Dominions has, of course, been intensified by the events of the war, though it is open to doubt whether the spontaneous and splendid rally of the Dominions has not given a setback to the contention that fiscal ties were necessary to the permanence of the Empire. It is possible that they might introduce an element of discord and create a suspicion of attempted control by the Mother Country which would render them a disruptive rather than a unifying tendency. In any case the question is mainly a political one, to be argued on political grounds, but with a due allowance made for its economic effects.

(*c*) Foreign Markets.

124. Success in Foreign Markets will depend, as before the war, upon the production of a desirable article at an attractive price and upon the skill with which goods are brought to the attention of buyers. It is agreed by almost all business men that there is room for great improvement in the organisation of selling. Up-to-date methods of publicity must be adopted. Industrial concerns will need to unite for the joint cultivation of foreign markets, sinking their individual rivalries and jealousies in the common object, receiving much more active aid from the Board of Trade and the Consular Service than has hitherto been given. A first hand study of foreign markets, more efficient representations abroad, better co-operation between merchants and shipowners, greater watchfulness by Government in cases of infringement of British Trade Marks, are all measures the need for which was apparent before the war and will be increased by the severity of competition after peace is signed. The contention that appointments to the Consular Service should be given only to men of British birth and business training will be emphasised. On the other hand it is a constant complaint of our most efficient Consular representatives that so little use is made of their offices by traders. The need of studying the requirements of foreign markets and of greater adaptability in respect of meeting local demands, packing, quotations in metric measures and foreign currency and the use of foreign languages will all be brought to the front. The utility or otherwise of creating a Ministry of Commerce or National Trade Agency will require full examination and discussion.

125. One result of the war will have been to give us a certain advantage not only in the markets of our Allies but in those of some neutral States. The success with which our own carrying trade has been maintained, while that of Germany has been completely shut down, has given to our merchants an opportunity to extend existing connections and form new ones which should not be missed. The disregard of neutral rights shown by the Germans in the use of South American territorial waters is a case in which we may derive advantage from a strong sentimental preference, which, however, can only be maintained by sound business methods.

126. We must not lose sight of the connection between the home and foreign markets. The more goods we can sell abroad the greater will be the purchasing and saving power of our people at home. On the other hand the ability of foreigners to buy from us depends in large part upon our purchases of their products.

(*d*) Allied Zollverein and Trade War.

127. The proposal for an Allied Zollverein and the possibility of a Trade War with Germany, as distinct from ordinary commercial competition, are very large questions, involving political as well as economic considerations. It is a matter of importance that these should be clearly distinguished in the discussion. It may sometimes be desirable to achieve a political object even at the cost of economic sacrifice ; but it is essential that in so doing we should realise clearly what we are about. On the other hand it leads to dangerous mental confusion if a step which can be shown to be economically desirable is advocated on exclusively political grounds.

128. We shall save ourselves from many pitfalls if we keep steadily in mind that industry and war are totally dissimilar operations. War is a conflict, and the object of war is destruction. Industry is a process of co-operation, the object of which is production. It is much the same with war and trade. The conflict of war and the competition of trade are different in kind as well as in degree. The object of conflict is to inflict injury. The object of business competition is the opportunity to serve a customer. War is competition in its absolute sense and in its most violent form. If nations co-operate in war it is for the purpose of conflict with others. Trade is competitive only in its processes ; its end is co-operation. We have learnt by experience that the organisation and processes of peace are ill-adapted to the needs of war. The processes of war are equally ill-adapted to the conditions of industry and trade. We may have to choose between war and trade. Let us at least recognise that it is a choice and not confound the functions of opposites.

(iv) Land.

129. We have not dealt here with the theory that the root of all economic evils is the private ownership

of land and that whatever may be done to increase the output of wealth, the increase will automatically be appropriated by the land-owning class, in the shape of economic rent. In the broad sense this theory is demonstrably unsound. It is certainly not the fact that the increased proceeds of the great industrial development during the nineteenth century have been absorbed into economic rent. The general increase of rent is so gradual and laggard a process compared with industrial progress that it may be left out of account here. Should a rapid advance in agricultural prosperity take place after the war and be followed by a marked increase in rents, threatening to absorb the extra earnings and discourage further progress, the power of the State may have to be invoked.

130. The question of land ownership and economic rent is the less pressing at this juncture in that there are unmistakable signs of the breakup of many of the large landed estates after the war, owing to the inability of their proprietors to keep them going on the old lines.

(v) Agriculture.

131. Far more promising than any land-nationalisation or single-tax project is the application to agricultural development of the same degree of thought, energy, training, education and organisation as is devoted to manufacture. It is eminently desirable that British agriculture should be developed. It would render us more self-sufficing in the event of isolation, it would restore the balance of our national activities, it would give us a healthier and more vigorous population, and it would prevent the further overgrowth of our large cities with its consequent over-crowding. If agriculture has suffered neglect from our statesmen, it has suffered far more neglect from our industrial pioneers and organisers. The importance of improved facilities for transport, and of investigating the problem of agricultural credit, has already been urged (paragraphs 109 and 84). The multiplication of existing local Produce Societies for the co-operative buying of seeds, manures, appliances, feeding stuffs, etc., and the co-operative marketing of the produce in bulk would do much to ensure the success of the small-holder. The education of

village children should be brought into relation with their future work, just as that of town children is made the basis of industrial training. We have suffered much in the past from an inelastic curriculum applied indiscriminately, without any attention to the special needs of localities and classes. The observation and environment teaching of the primary schools should be directed to awakening interest in and understanding of the life around them, and the eye and hand training to the perfecting of those faculties which will be most useful in agricultural work. At a later stage, direct vocational training may be given, either at special schools or in daytime classes for junior workers. In this way it should be possible to make of the agricultural labourer a skilled worker, and to invest his work and life with a greater degree of dignity and interest, which will go far to counteract the drift towards the urban centres. The facilities for farmers and foremen to acquire a knowledge of scientific farming, stock rearing and gardening should also be largely increased and greater encouragement given to research and experiment in connection with cultivation. With an improvement both in the management of the land and the efficiency of the workers, the problem of agricultural wages should be easier of solution, and a general rise in wages would enable the question of housing in rural districts to be tackled on an economic basis.

132. To sum up very briefly what has already been said: We shall be faced after the war by an industrial situation of extreme gravity due partly to the intensification of the conditions which made for unrest before the war, partly to the difficulties inseparable from the readjustment to peace conditions. These difficulties can be met to some extent by the adoption of immediate remedial measures, a number of which are suggested above. But these measures, important in themselves, will not go to the root of the industrial problem. In like manner the increased production and increased saving which will be essential to the renewal of the national capital and the restoration of industrial prosperity can be promoted by the study and solution of a large number of detailed questions bearing on

Industrial Efficiency, Increased Savings and Assured Markets. Here again the fundamentals remain untouched. At the back both of the Emergency and the Constructive Problems lies the hostility between Labour, Management and Capital by which production has been hampered in the past and which now threatens us with a crisis the dangers of which it is not easy to exaggerate. Unless we can deal successfully with this basic problem, no amount of skill in handling the secondary questions will save us. If we can deal with it successfully we shall have laid the foundation for the solution of all our other difficulties, and we may hope not merely to avert the threatened dangers but to establish industrial prosperity and social development upon a firmer basis.

D.—The Fundamental Problem.

133. In order that we may understand the nature and importance of the fundamental problem, it is necessary to examine a little more closely the essentials of industrial prosperity and its relations to national welfare.

134. The foundation of industrial prosperity is production. The material well-being of a nation demands first, the attainment of the possible maximum both as regards size and quality of output, whether of goods or services; secondly, the elimination of all waste of material or effort in the process of production; thirdly, an equitable division of the proceeds of industry, enabling all those concerned in the creation of wealth to obtain a reasonable share of its material benefits. The social welfare of the nation requires that the conditions of work and the relations between the parties to industry shall be such as make for intelligent and self-respecting citizenship on the part of all concerned, and that the activities which occupy so large a proportion of men's time and powers shall be felt by them to be a fit and worthy employment of their energies. Any attempt to solve industrial problems which is concerned solely with the distribution of earnings must necessarily be inadequate. In the first place, the amount available for distribution depends upon the amount produced, and an attempt by any section of the community to increase its own share of the proceeds by a scheme of redistribution which ignores the necessity of increased creative effort is apt to result in a shrinkage of the available total. In the second place, the questions which centre round wages and profits, important as they are, are not so vital as the questions of industrial relations and social conditions with which they are connected.

135. In order that production may be efficient both as regards the quantity and quality of output and the methods employed, it is essential that the supply of capital should be adequate and that the national plant should be kept up to date. The war has involved deterioration of plant and a heavy drain on capital. In order

that capital may be renewed and the national plant repaired and kept in the highest state of efficiency it is essential that confidence should be maintained and savings increased. The accumulation of surplus wealth which we call capital represents the balance of production over consumption in previous years and is constantly being added to or diminished in accordance with the ratio of goods produced to goods consumed. When that accumulation has been depleted, the deficiency can be made good only by an increase in the annual balance. It will be necessary to encourage economy in the consumption of goods and the investment of the resulting savings in productive industries. We must work hard and efficiently in order to produce more. We must spend less on luxuries in order that we may save more. We must increase confidence in the national industries in order that savings may be attracted into the right channels.

136. Increased production, increased saving, increased confidence—these are the three keys to the whole problem.

137. Production may be hampered either in pursuance of a deliberate policy, or simply by the use of inefficient methods. The interest of Employers, as a general rule, is to increase output, the danger of over-stocking being met by improved distributive organisation and the opening up of new markets. Cases of restriction, for the sake of keeping up prices, occur mainly in connection with monopoly products and the problem of counteracting the influences which make for restricted output in these cases deserves a more careful study than has yet been given to it. There is also a tendency, perhaps unconscious, on the part of some employers to throw obstacles in the way of increased output due to the exceptional efficiency of employees. They would rather have a smaller output produced by men receiving wages not above the customary limit than an increased output produced by men earning exceptionally high wages. As soon as the earnings of any men in their employ rise above the customary level, they begin to cut piece rates, with the natural result of removing the incentive to efficiency and diminishing output. This policy is not only unjust

to the men concerned ; it is shortsighted and uneconomic from the point of view of the employer's own interests. On the other hand, the interest of the individual employer in maintaining a high standard of quality cannot be taken for granted, so long as large profits can be derived from the sale of inferior goods. Stronger action on the part of Trade Associations, and more general education of the purchasing public in standards of value, are needed both in the national interest and in that of producers of high class goods.

138. Much of the limitation of output on the part of Employers arises from inefficiency in management —conservatism in methods, the retention of badly-planned works and out-of-date plant, bad organisation, neglect of scientific research, the presence of " dead-heads " on the office staff. There is some reason to hope that the experiences of the war and the keenness of competition after it may lead to greater attention being paid to these points.

139. The limitation of output by Labour arises partly from the legitimate desire to restrict the hours of work in the interest of health, education, family life and enjoyment. These are considerations of social welfare which cannot be set aside. We must look for greater production rather from increased efficiency than from an increase in the number of hours worked. There are, however, large sections of Labour by whom a further limitation of output is deliberately practised in the assumed interests of their class as a whole. In some cases the motive is the honest but mistaken belief that the less each man does the more work there will be to go round. " Work " is regarded as an exhaustible fund, or at the best as a diminishable flow, and it is assumed to be in the interests of his class that each man should " use up " as little as possible. The fallacy lies in the conception of an inelastic " wages fund." Wages come out of the stream of products, and other factors remaining constant, the distribution of wages cannot be widened except by an increase of the stream. In the case of trades in which employment is irregular and demand uncertain, the temptation to slacken work as a job nears completion is easy to understand, but the results of the policy are too wasteful to be contemplated with satisfaction. The remedy must be sought in a

better organisation of the industries concerned which will give the workman greater security of tenure, and remove the fear of unemployment or relegation to lower-paid work as a result of exercising his maximum effort. A further cause of limitation of output lies in the natural differences of individual capacity. The workers believe that if each man were allowed to produce to his full power, the minimum standard demanded by the employer would be based on the performances of the quickest and most skilful and a "speeding-up" process would be introduced, involving either excessive strain or lessened earnings on the part of the majority. From this point of view, restriction of output is a sacrifice made by the ablest workers in the interests of their fellows. While such restrictions necessarily result in limiting the total output, it is obvious that Labour cannot fairly be asked to remove them unless some definite assurance can be given against the evils anticipated. The question is one which will require very serious attention both from Employers and Employed, when we come to face the task of industrial reconstruction.

140. With regard to quality of output it is obvious that the workers' interest lies in the direction of a high standard which will improve the status of those concerned in the industry. Whether from the point of view of earning power or of interest and satisfaction in their work, the workmen have everything to gain by the standard of workmanship in their particular trade being raised. A general appreciation of this fact, resulting in greater attention by Labour organisations to questions of craft training and quality of output would do much both to raise the position of Labour itself and to strengthen the hands of those employers who are striving for a high level of production, as against those who seek to make their profit out of the bad taste of bargain hunters.

141. It is clear that any restrictions placed upon production, whether by Employers or Employed, beyond those based upon the social needs of the workers, must be removed if the difficulties of the economic situation are to be faced successfully. In order to make good the wastage of war and raise the general level of industrial prosperity, the efforts of both parties must be united for the purpose of increasing the quantity of output and improving its quality. In order to avoid disastrous

conflicts with regard to the distribution of earnings, the national income, the total sum available for distribution, must be not only maintained but increased. The prospects of success depend upon the willingness of both sides to face the facts of the situation and to throw aside somewhat of their mutual distrust. It will be necessary for Labour to abandon the policy of restricting output and to concentrate upon demanding adequate remuneration for the work performed. It will be equally necessary for Employers to recognise that efficient production is the only ultimate source of profit, that the policy of keeping down wages and cutting piece rates is opposed to their own interests, and that industry as a whole will benefit by any rise in the level of craftsmanship and production. There is to-day an urgent necessity for the removal of all obstacles to any man either working or earning to the full extent of his capacity.

142. The argument has brought us to the fundamental question which underlies all our industrial troubles—the relation between Employers and Employed. The limitation of production, whether by Labour restrictions on output or cutting of piece rates by Employers, springs from the belief that the interests of Employers and Employed are inevitably and fundamentally hostile. If it can be shown that their interests are concurrent as regards production and only partially opposed even as regards distribution, the way will have been paved for a compromise which will leave both parties free to co-operate in the work of industrial reconstruction.

143. The relations of Employers and Employed are partly antagonistic as regards distribution, because it is to the interest of each to secure a relatively large share of the wealth produced. They are not wholly opposed, even in this respect, because it is to the interest of the employer that his workpeople's standard of life shall be sufficiently high to promote efficiency and afford a reasonable incentive to effort ; it is to the interest of the workman that the firm shall be sufficiently prosperous to provide steady employment. Good work cannot be expected from men who are ill-fed and insufficiently clothed, or who feel that they derive no advantage from increased production. Continued employment cannot be expected from a firm which is not making a profit on its business. The qualification becomes still more important

when it is extended from the relations existing in a particular firm to industry as a whole. It is to the interest of all employers engaged in the supply of common commodities that wages as a whole should be good, in order that the purchasing power of their customers may be high. It is to the interest of the workers, who are also consumers, that firms producing articles of general use should be sufficiently prosperous to keep plant up to date and produce well and cheaply.

144. The interests of Employers and Employed are concurrent as regards production, because it is to the benefit of each that the total available for distribution shall be as large as possible. The interest of the working class in increase of output may be limited by other than economic considerations. They will not accept for the sake of increased wages methods of work which involve loss of self-respect or a narrowing of their life by undue restriction of leisure. To this extent the interest of the employer may be over-ridden by considerations of social welfare. The real conflict is between his economic interests as an employer of labour and the social interests of the community of which he is a member. But the employer and employed are both concerned in increased *efficiency* of production, which implies equal or improved output at less cost to the employer and with less strain to the employed. Here, too, it is to be noted that the workman, as consumer, will benefit by any increase in the general efficiency of production.

145. The great obstacle to co-operation is the question of *status*. The ill-will of Labour towards Capital and Management is not wholly a question of their respective share of earnings. Friction arising over the distribution of earnings is in itself due quite as much to a sense of injustice in the machinery of distribution as to the desire for actual increase of wages. The fundamental grievance of Labour is that while all three are necessary parties to production, the actual conditions of industry have given to Capital and Management control not only over the mechanism of production, but also over Labour itself. They feel that the concentration of Capital in a comparatively few hands has rendered fair bargaining between the parties impossible. A man who leaves his work without reason inflicts on his employer a certain amount of loss and inconvenience. A man

who is dismissed without reason may lose his livelihood. While each great firm represents in itself a powerful organisation, apart from any Employers' Association to which it may belong, the men employed by the firm are solitary units, having no power of collective action without calling in the Trade Unions representing the whole of each craft. In the last resort the only effective weapon of the Trade Union is the strike, and the loss inflicted by a strike or lock-out on the Capitalist Class is not comparable with the acute personal suffering of the workmen and their families. They feel therefore that in any dispute the dice are weighted against them.

146. There is also a very widespread feeling that Labour as a whole is faced by great disadvantages in ventilating its grievances. The tribunals are composed, the Press is owned and run, by men of another class; and the complaint is frequently made that the Labour representative and the Labour case do not receive the fair play and courtesy which would be extended to those of their "opponents."

147. The attitude of a certain section of Employers who look on their employees as "hands," as cogwheels in the industrial machine, having a market value but no recognised rights as human beings, is bitterly resented. Still more offensive is the attitude which regards the working man as a very good fellow so long as he is kept in his place and requiring to be guided and disciplined, but not to be consulted in matters vitally affecting his interests. Labour has come to know its power. It realises that it is an indispensable party to the production of wealth and it requires to be treated frankly as a partner with equal rights and equal responsibilities.

148. The grievances of the Employers are no less valid. They complain of deliberate limitation of output, slackness and inefficiency in work, short time and malingering, the lack of any feeling of responsibility. They point out that many leaders of Labour opinion carefully discourage any sense of loyalty to the firm—the source from which the earnings of Capital and Labour are alike derived—that even a fair employer can feel no confidence that his workmen will back him up in a pinch. Any effort to improve the condition of the employees is regarded as a concession extorted from weakness and is followed by further demands which bear no relation to

the condition of trade. Every period of prosperity produces a demand for higher wages; but no amount of depression is considered as an excuse for reverting to a lower scale. The Trades Union wage regulations place obstacles in the way of differentiation between the efficient and industrious workman and those who are less skilled or less hardworking. At the same time they render it impossible to continue in employment, without actual loss, men whose capacity for production has been decreased by age or accident.

149. The gravest complaint, however, relates to the insecurity of bargaining. The Employer's power to negotiate directly with his employees is restricted by the Union, yet bargains thus made with the men's accredited representatives are continually broken by those whom they profess to bind and the Union itself cannot enforce the agreement which it has made.

150. So long as the fundamental interests of Employers and Employed are believed by the majority to be purely antagonistic, no cure for the grievances of either side is likely to be found, since the wrongs of which both sides complain spring from that very feeling of hostility and suspicion. For just so long as this attitude is maintained, production will fall short of its possible total.

151. The limitation of production carries with it a limitation of the possible amount of savings. If the total amount produced is low, the balance of production over consumption will be low also. But class-hostility hampers saving in other ways. The supposed clash of interests destroys the sense of responsibility in the use of wealth. Discontent with economic conditions is productive of reckless expenditure. The man who feels his condition of life to be unworthy has no incentive to save, because he has no hope of substantial improvement in his condition. The worse that condition is, the greater is his need of amusement and palliatives to render it bearable. Sound investment is discouraged because the prospect of repeated outbreaks of industrial warfare makes confidence impossible.

152. We see, therefore, that the mutual hostility of Employers and Employed is the prime obstacle to the three essentials of industrial prosperity—Increased Output, Increased Saving, Increased Confidence. It is only

from the removal of this obstacle that any one of the three great parties to the industrial process can look for a permanent increase of earnings.

153. We may therefore lay down these four broad principles as those which must guide our attempt to solve the Industrial Problem.

(*a*) **The first necessity of the Industrial Situation is greater efficiency of production. In order to meet the difficulties created by the war, to make good the losses of capital, and to raise the standard of living amongst the mass of our people, we must endeavour to increase both the volume and the quality of output.**

(*b*) **In order that this result may be obtained without detriment to the social welfare of the community, it must be sought for rather in improved organisation and the elimination of waste and friction, than in adding to the strain on the workers, and must be accompanied by a change of attitude and spirit which will give to Industry a worthier and more clearly recognised place in our national life.**

(*c*) **This can only be accomplished if the sectional treatment of industrial questions is replaced by the active co-operation of Labour, Management and Capital to raise the general level of productive capacity, to maintain a high standard of workmanship, and to improve working conditions.**

(*d*) **It is essential to the securing of such co-operation that Labour, as a party to Industry, should have a voice in matters directly concerning its special interests, such as rates of pay and conditions of employment. It is necessary to create adequate machinery both for securing united action in the pursuit of common ends and for the equitable adjustment of points which involve competing interests. This machinery must be sufficiently powerful to enable both sides to accept its**

decisions with confidence that any agreement arrived at will be generally observed.

154. There are many to whom these principles will not seem to go far enough. They are convinced that the only solution lies in a complete reconstruction of Society —the abolition of Private Ownership of Land and Capital, the establishment of State or Guild Socialism, the Re-integration of Industry, the Return to the Land, the break-up of the existing Trade Unions. Accordingly they reject the notion of co-operation between Employers and Employed as involving an abandonment of the first essentials of reform. If we were discussing the abstract ideal of Society, it would be necessary to meet their criticisms by discussing each of their proposals on its merits. But the present issue is a narrower one. We have to deal with a definite and immediate danger—the prospect of an industrial crisis following on the signing of peace. It is obvious that no measure involving a radical reconstruction of the social system has any chance of adoption in time to avert this evil. On the other hand, the prospect of any specific programme emerging from a period of internal conflict is small. The results of social or political upheavals have seldom been those anticipated by their promoters. The men whose ideas gave birth to the French Revolution did not foresee the Terror or the Empire. The Long Parliament foresaw neither the reign of the Major-Generals nor the Restoration. If we are to find a way out of the threatened difficulties, we must do so by making the best use of the materials at hand, accepting the conditions under which we work and seeking to unite all classes in the pursuit of interests which are common to all. Whatever may be the ultimate direction of industrial progress, an advance is more likely to be founded on a first right step than to come through the chaos of industrial warfare and class-hatred.

155. The difficulties of devising any scheme of co-operation which shall be acceptable alike to Employers and Employed are great enough. It demands from both a clear understanding of their respective parts in the process of production, a measure of sympathy with the point of view of the other parties to that process and a just perception of the respective weight to be attached to conflicting and to common interests. It calls for a

certain daring in experiment and for a willingness to make concessions, if needs be, for the common good. It requires both parties to abandon recrimination as to the mistakes of the past and to approach each other in a new spirit.

156. These are great demands; but the emergency and the opportunity are also great. Whatever we may do, we may be sure that things will not continue to move quietly in the familiar grooves. The whole world alike of conditions and ideas has been violently shaken and a ferment has been set up out of which may come either good or evil, but in no event a reversion to the old order. We cannot alter the facts by ignoring them. Our only choice lies between the risks involved in abandoning ourselves passively to the forces of change and the effort required to harness them for our own ends.

157. To avoid chaos is much; of itself it would be worth no small sacrifice and effort on the part of all. The gain which might accrue to any class from conflict is shadowy and uncertain; the loss and suffering to every class alike are certain and heavy.

158. But to avoid danger is not all. It seems probable that we stand to-day at one of those definite turning points in human history where a generation of men has it in its power, by the exercise of faith and wisdom, by facing the problems of the moment without passion and without shrinking, to determine the course of the future for many years. If we can rise to the height of our opportunity we may hope not merely to pass safely through the immediate crisis, but to contribute largely to the future welfare of the nation.

159. Whatever action is taken must be the result of frank and full discussion between representatives of all parties to the question. Any attempt to enforce upon one party a scheme framed wholly by another would defeat its own object and precipitate the crisis. It will not do to look to the Government for the initiative. Whatever part the State may play in the future of Industry, it cannot move in advance of the general level of opinion among those concerned. Most of the difficulties which have been analysed in this Memorandum apply with equal force to State controlled industries, and while the solution may involve legislative sanction or State

action, the problem itself can be settled only by agreement between those chiefly concerned.

160. The first step towards agreement is to define the functions of the three parties to production.

Capital is necessary to a business for the erection of plant, the purchase of raw material and working expenses. In order that Capital should be used to the best advantage for the purposes of industry, it is necessary that investors should display sound judgment as to the prospects and requirements of particular enterprises, exercising caution or daring as occasion demands.

Management is concerned with the disposition of the Capital provided, the erection and employment of machinery and plant, the general organisation of the business, the placing and acceptance of contracts, the purchase of the raw material and the sale of the finished product. The performance of these functions requires not merely a knowledge of the particular business concerned but of all which are in any way connected with it, a careful study of markets, of methods of distribution and of financial conditions.

Labour undertakes the conversion of the raw material into the finished product, by aid of the plant and machinery provided. While the first requisite in the workman is a thorough understanding of his own job, the maximum efficiency can only be attained if he has a clear conception of the part played by his own work in the whole process of production.

These definitions are framed with a view to a manufacturing business, but they can be adapted, by changes which will readily suggest themselves and are not vital, to a distributive industry.

161. It is obvious that the functions of Capital, Management and Labour overlap. In many cases the man who provides the funds of a business also directs its working. In such cases he performs both the waiting and risk-taking functions of Capital and Management's function of expert control. It is logical to regard his profits as consisting partly of interest on the capital provided and partly of remuneration for his services as manager. Again, a foreman or a ganger combines to some extent the functions of Labour and Management ; and in general, the spheres of management and labour activity are too closely connected for any clear line of

demarcation to be drawn between them. Capital itself represents the result of past services performed by all three parties.

162. This inter-relation of functions constitutes a real partnership* between the persons concerned in any business, whether as investors, managers or workmen, or in any two or all of these capacities. At present the relation between them is unrecognised or only partly understood, and the result is to produce hostility instead of co-operation between the partners. The attention of all is apt to be concentrated on the points in which their interests conflict to the exclusion of those in which they are common.

163. This failure to realise the possibilities of co-operation springs largely from neglect of a fundamental principle. The first article of partnership is equality of knowledge. At present the Workers have little knowledge of the capital risks, working expenses, establishment and depreciation charges of a business, or of the relation between their particular job and the general process of production. On the other hand, Employers have, as a rule, a very imperfect understanding of the Workers' point of view, the degree in which they are affected by economic and social considerations respectively, and the effect of particular processes and methods of working upon their physical and moral life. From this mutual ignorance arise innumerable misunderstandings with regard to rates of pay and conditions of labour which are capable only of arbitrary solutions, because neither side understands the standpoint of the other. It is probable that a large percentage of the disputes arising over rates of pay, the introduction of labour-saving machinery, hours of work, the demarcation of tasks, Trade Union restrictions, could be avoided or compromised, if Employers and Employed really understood the reasons for the attitude of the other party. In default of such understanding, the dispute takes on the character of a trial of strength, in which each side is compelled, for the sake of principle and prestige, to put forth efforts disproportionate to the actual point at issue.

* The word partnership is here used in its widest sense and does not involve the acceptance of what are generally known as co-partnership schemes.

164. It has been said in paragraph 145 that the chief obstacle to co-operation is the question of *status*. The development of modern industry has turned the operative into a mere cog in the industrial machine. The average working man has no say in the management of the business and very little as to the conditions of his employment; he has no interest in the success of the firm, except that it should not collapse altogether; and the tendency has been more and more to reduce his work to a mechanical routine. The term "wage-slavery," so often used, means something more than the mere economic dependence of the worker on his employment. It embodies the revolt of the worker against a system which gives him neither interest, nor pride, nor a sense of responsibility in his work. To a large proportion of those engaged in industry their work has become something external to their personal life, a disagreeable necessity affording no opportunity for self-expression, the joy of creation, or the realisation of healthy ambitions. The result has been a serious impoverishment and enfeeblement of life and character and a permanent obstacle to industrial development. It is impossible for men in this position to take long views, or to consider innovations from the standpoint of industry as a whole. The opposition to new methods of working, labour-saving machinery, dilution of labour, scientific management, is only in part the result of specific and reasoned objections. It springs still more largely from the fact that these schemes are imposed from above and are presumed to be framed solely in the interest of the Employers. The opposition to them is, in fact, a revolt against dictation. On the other hand, the uncompromising attitude of Employers does not, generally speaking, arise from a tyrannical spirit or a mere desire for increased profits, but from impatience with the men's separatist attitude and their inability to realise the common dependence of Employers and Employed upon the produce of their joint exertions.

165. The same difficulty arises in the case of distribution of earnings. The worker feels that his labour is treated as a mere commodity, the market value of which may be forced down by the Employer, irrespective of any consideration of a decent standard of life for the Employed, and that he receives the reward of his toil, not as a matter of right or as the equitable division of

the proceeds of joint effort, but as a dole fixed by the arbitrary will of the Employer or as a concession extorted by force. The Employer feels that each demand made upon him represents a raid upon his profits limited solely by the power of the Workers' organisations and unaffected by any consideration of the working expenses of the business, provision for depreciation or dilapidations, or the building up of a reserve against future depression. In the confusion of thought arising from imperfect understanding, there is a tendency to regard the whole problem as centreing round the concrete question of distribution, which becomes a symbol of the general opposition of interests. The consequence is that disputes as to wages are often fought on either side with a bitterness and obstinacy altogether out of proportion to the amounts involved. In order to arrive at a clearer conception, it is essential to disentangle as far as possible the economic and non-economic factors. If the question of *status* can be settled, the main obstacle to an agreement as to distribution will have been removed.

166. The problem is, therefore, to settle this question of *status* in some way which shall give the workman the sense of self-respect and responsibility which he desires, without interfering unduly with the employer's exercise of the necessary functions of management. The Trade Union regulations, which have been so largely suspended by agreement for the period of the war, were mostly directed towards this end—the assumption by Labour of some measure of control over the conditions under which it works. They refer to wages, hours of labour, overtime and Sunday work, apprenticeship and the method of entry into particular occupations, the kind of work to be performed by different classes of workers, the methods of negotiation between Employers and Employed and similar questions. In other words, they represent an attempt to substitute for the autocratic control of the employer over the working lives of his employees a greater and greater degree of self-direction by the organised workers themselves, acting through their accredited representatives.

167. As a natural result of the assumed conflict between the fundamental interests of Employers and Employed, the action of the Trade Unions took the form,

in appearance at least, of an attack upon the profits of the Employers and their right to control the conduct of their business. It was largely as a defence against the Unions that the great Employers' Associations came into being. After making all allowance for the occasional insubordination of Trade Union members and the lack of support given in some quarters to the Employers' Federations, the effect of these parallel organisations has been beneficial to both sides. Hitherto, however, the action of both groups has been almost entirely negative. They have placed restraints both upon tyranny and upon anarchy; they have succeeded in compromising many disputes and in restricting the occasions of open conflict; but they have done little or nothing to remove the continual undercurrent of latent hostility and divergence of effort which has hampered industrial development far more than the direct effect of strikes and lock-outs. They have protected the special interests which they respectively represent; but they have not risen to the conception of combined action in pursuit of their common interests. Valuable as their work has been, it can hardly be regarded as an adequate return for the ability, energy and power of organisation displayed on both sides.

168. The explanation of the comparative failure of the Employers' Associations and Trade Unions on the constructive side of the industrial problem is to be found in their strictly sectional and defensive origin and outlook. Regarding themselves as entrusted with the interests of one party to Industry and not of Industry itself, they have paid no attention to the problems and difficulties of the other side, and they have come together only when one had a demand to make of the other or when a conflict was imminent. Thus they have always met in an atmosphere of antagonism, and their negotiations have been carried on as between two hostile bodies. Exchange of views has come at too late a stage in the proceedings, when a stand has already been taken on both sides and prestige or prejudice forms an obstacle to concessions. What is still more important, their discussions have been confined to specific points of dispute and have not embraced the consideration of constructive measures for the improvement of industrial conditions and the increase of efficiency. Yet the possibilities of

combined action which lie in these two great groups of highly organised and powerful bodies might transform the whole face of industrial life. Their united knowledge of both sides of the industrial process should enable them to throw light on every phase of its successive developments. Their united strength would render them, in combination, practically irresistible. But to secure the realisation of these possibilities the co-operation between the two groups must be continuous and constructive, and must be based upon a recognition of the common interests of Employers and Employed, both as parties to industry and members of the community. Employers must realise that both their own interests and the obligations of citizenship impose upon them the necessity of a sympathetic understanding of the lives and standpoint of those with whom they work and a willingness to co-operate, without dictation or patronage, in every endeavour to improve their material or social conditions. Labour must realise its direct interest in the improvement of industrial processes, the organisation of industry, the standard and quantity of production, and the elimination of waste in material or effort. Both the Employers' Associations and Trade Unions must learn to regard themselves as joint trustees of one of the most important elements of the national life.

169. The machinery necessary for such co-operation will require to be created. The existing Conciliation Boards, or Industrial Boards on the Australian model, while they perform many useful functions, will not serve this purpose. These Boards are, in fact, independent Courts sitting to adjudicate upon claims in respect of which the parties are unable to agree. Such a method of adjudication is in many ways preferable to the alternative of leaving questions to be settled by conflict, as the result of a strike or lock-out. They enable Employers and Employed to contract on more equal terms. They result also in the production of detailed evidence whereby each side might, if it had the inclination, understand the case of the other. But here, too, the exchange of views comes too late and the parties meet not to co-operate but to oppose each other. Moreover, they are concerned solely with the settlement of specific disputes, and while they may continue to do useful work in this connection, they cannot provide the opportunity for

that continuous and constructive co-operation of Management and Labour which is essential to any satisfactory solution of the industrial problem.

170. Something much more comprehensive is required, and the task of providing it will need very careful attention from those concerned. It is unlikely that any one scheme could be devised which would be applicable to all industries or in all localities. The utmost elasticity, whether in present application or in future development, is necessary to any system of industrial organisation, for industry itself develops and modifies day by day. But the general lines upon which development is possible can be deduced from the foregoing analysis of the difficulties to be overcome.

171. In its simplest form, the new machinery would consist of Joint Committees, representing both the Management and the Works Staff. This method would lend itself readily to experiment by individual firms and could be applied even in the unorganised trades where no strong Trade Unions or Federations of Employers exist. At the meetings of such Committees any questions affecting working methods and conditions could be brought up for discussion by either side. The representatives of Management would be required to explain the nature and extent of any proposed innovation designed to increase output or economise effort—the introduction of new automatic machinery, time and motion study, standardisation of tools, analysis of fatigue, elimination of waste—and its effect upon the earnings of the firm and of the individual worker. This explanation should be as clear and full as possible, with the object of giving each worker an interest and sense of responsibility in his work, by making clear to him, through his representatives, the *reason* for the methods to be adopted and the relation of his job to the whole process of production. The proposals having been explained, the Workers' representatives would consider them from the point of view of the interests of the men employed, the relation between the different classes of labour, the strain on the workers, the amount of interest and intelligence put into their work. If necessary, they would put forward modifications or safeguards for the protection of these interests. Where the result was to show a real divergence

of opinion or of interest, it would be freely discussed, with a view to finding a way round and adjusting the balance between common and competing interests. In like manner, proposals for alterations in the hours or conditions of labour, in the interests of the health or social welfare of the workers, would be put forward by the Workers' representatives and discussed in the light of any objections on the score of expense or difficulties of working urged by the Representatives of Management. While the Representatives of Management would naturally be concerned mainly with the efficiency of the business and those of Labour with the immediate interests of the Workers, it is very desirable that neither should confine their attention to their own side of the business. A wise Employer will always have the interests of his staff at heart, and workmen who feel themselves to have a recognised interest in the business will have many suggestions to put forward for promoting its efficiency.

172. In the staple trades, the method of Works Committees would require to be replaced, or supplemented, by Joint Boards composed of representatives of the Employers' Associations and the Trade Unions. Having regard to the differentiation of functions between Management and Labour and the large number of problems affecting one or both parties, which arise in a big industry, two co-equal Boards might be created in each industry, one representing Management and the other Labour, with a Supreme Board of Control co-ordinating the work of both. The functions of the Management Board would cover the " business " side of the industry; those of the Labour Board would relate to conditions and hours of labour, the demarcation of tasks and everything that touches most nearly the life of the worker. Representatives of these Boards, meeting on the Supreme Board of Control, would deal jointly with all matters by which the interests of both parties were affected. Such questions as the Dilution of Labour, which is becoming increasingly important, yet which cannot be dealt with satisfactorily so long as it is approached from one side only, would be discussed by the Joint Board of Control, both from the point of view of efficiency in production and from that of the interests of the Workers and the position of the Trade Unions.

In this manner it should be possible to construct and give effect to a definite policy and programme for each great industry as a whole, representing a reconciliation between the common and competing interests of Employers and Employed, and based both upon the desire to obtain the maximum of efficiency and the desire to obtain the best possible conditions for the workers.

173. In order to avoid the evils of inelasticity an over-centralisation, and to make due provision for the varying conditions of different localities and firms, it might be advisable to combine the creation of these Central Boards with an organisation of District and Works Committees, charged with the special care of local and individual interests and problems. The representation of such Committees on the Central Boards and the delegation to them of local questions would constitute a protection against the injustice which might otherwise be done by an attempt to equalise rates of pay in areas which differ widely as to the cost of housing and food, or in which the conditions of production and transport produce important variations in working expenses. They would also serve as a protection to established workshop and local craft traditions against the deadening tendency to a mechanical uniformity.

174. In its most ambitious form, the Supreme Board of Control would resolve itself into a National Industrial Council for each of the staple industries or groups of allied industries. The members would be elected by ballot, each electoral unit, or pair of parallel units, returning one representative of Management and one of Labour. In many industries it would be desirable to find a place on the Council for representatives of the Applied Arts, both with a view to raising the standard of design and workmanship, and with the object of encouraging the human and creative interest in production. A Speaker of broad sympathies and experience, capable of directing and focussing the discussions upon the practical problems to be dealt with, would be chsoen by mutual consent, but would have no casting vote, his capacity being purely advisory. Such Industrial Councils would in no sense supersede the existing Employers' Associations and Trade Unions, many sides of whose present activities would be unaffected by the creation of

the new bodies. Matters connected with the sources and supply of raw material and the cultivation of markets for the disposal of the finished products would remain exclusively the concern of purely commercial federations of manufacturers, acting in conjunction with the State. The benefit side of Trade Unions and many phases of the internal organisation of labour by them would be similarly unaffected. In other matters the connection between the old and the new bodies would be close, without any loss of identity. The Unions and the Employers' Associations would send their delegates to the Industrial Councils charged with the defence of the special interests represented by them and equipped with special knowledge of their particular problems. The general policy outlined by the Industrial Parliaments would be carried out in detail largely through the older organisations.

175. The field of action open to the Industrial Councils would be very great. It would extend, for instance, to (*a*) the suggestion and consideration of improved methods and organisation ; (*b*) the maintenance of works discipline and output ; (*c*) the maintenance of a high standard of design and workmanship ; (*d*) the education and training of apprentices, and the conditions of entry into the industry concerned ; (*e*) the demarcation of tasks ; (*f*) the prevention of unemployment, the development of security of tenure in the trade and the decasualisation of labour ; (*g*) questions of wages and piece rates ; (*h*) the prosecution of research and experiment, and (*i*) the improving of the public *status* of the industry. Where the Council represented a group of allied trades, it would naturally concern itself with the co-ordination of their work and the adjustment of their respective interests. In addition to the promotion of internal prosperity, the Councils would be able to give public utterance to the views and needs of each industry in its relation to the whole national life. They would take account not only of economic but of moral and aesthetic values. Their object would be not merely to increase the productive efficiency of the industry and to reconcile the competing interests of those engaged in it, but to emphasise the worth and dignity of industrial life and to enlarge the scope offered by it to the energies and ambitions of those concerned. It would be part of

their task to emphasise the close connection between industrial questions and those relating to education and social conditions. It might even be advisable to empower the Industrial Councils to apply for Board of Trade Orders giving legal sanction to their decisions—but this would necessitate careful watching, and the provision of adequate safeguards, especially in the interests of consumers.

176. There is, of course, a tendency in all great associations of industrial units to develop the danger of tyranny, which seems almost inseparable from a close corporation. If, however, it is found that the requirements of the time call for the creation of such organisations, it would be well to face this danger without flinching. The advantages to be obtained are enormous, and with the help of the legislature and the Courts the dangers can be met.

177. Whatever scheme is adopted, the essential thing is that it shall give expression to a real desire for co-operation between Employers and Employed. In the unorganised trades, Works Committees on the plan already suggested may be sufficient for present needs. The probability is that, with increasing prosperity and better understanding, the desire for organisation will grow, and the tendency will be to extend the scope both of Employers' and Labour Organisations and to increase their effectiveness, so as to give the Employers' Associations greater power to control the action of individual firms and to enable the Trade Unions to make agreements with a greater certainty of their being carried out. It is evidently desirable that the organisation of Employers and of Labour should proceed *pari passu*, with full mutual recognition, so that individuals or small groups on one side should not find themselves contronted by powerful organisations on the other. When once a policy of co-operation has been introduced, its future development and extension may safely be left to time and experience. An attempt to lay down any definite and rigid scheme at the start would probably defeat its own object. The whole success of the policy depends upon the elasticity with which it can be adapted to practical needs and opportunities as they reveal themselves. It is obvious that, even in unorganised trades, it might be applied to many

questions of works economy, with the result of stimulating care and efficiency on the part of the Workers, and giving Management a better understanding of their point of view, to the advantage of both. In the engagement of men and their allocation to different departments and jobs, it should be possible to take advantage of the special knowledge of both sides, by consultation between the Managers and the representatives of the works Staff as to the numbers and qualities of the men required. In some cases it might even be possible to appoint a permanent joint committee to deal with the question of the supply of labour, and the requirements of the work in hand.

178. It is probable that some time must elapse before the benefits of any such scheme as has been suggested could be fully realised. The change of attitude involved is too vital, the field of activity is too large to hope for any but gradual development. At the outset it might often happen that much of the discussion, either in a Works Committee, or a National Industrial Council, was obstructive or irrelevent. But it has been proved again and again that contact breeds mutual understanding and responsibility calls forth capacity. Without depreciating the part which may be played by Government and by independent experts in the regulation and encouragement of industry, the primary essential of progress is that Industry shall have faith in itself.

179. There is nothing to be gained by minimising the practical difficulties. The task is one which requires the co-operation of the best brains engaged in the study of industrial questions, whether as Employers of Labour, Leaders of working-class opinion, or Economists. Premature action, based upon imperfect knowledge, or an ill-considered programme, would only increase the difficulty of the work. But with so much to be done and such great issues at stake, no time must be lost in preparing the ground. The inquiries which will be necessitated by the various phases of the Emergency Problem will throw valuable light upon the methods to be adopted in the larger task. The measures by which that problem is dealt with may be made the foundations of permanent reconstructive work. There is a danger, however, lest the very complexity and importance of the questions of reinstatement of demobi-

lised men and readjustment of industry to peace conditions should divert attention from the fundamental issues. It is essential that we should see the Industrial Problem as a whole, and should preserve a clear idea of the relation between its several factors and the proportionate weight to be attached to each.

180. It is the hope of those responsible for this Memorandum that the suggestions here put forward may prove of some assistance in attaining this central standpoint. They have attempted to trace the causes of that Unrest by which industrial troubles have been produced in the past, and by which the economic dangers arising from the war are likely to be accentuated. From this analysis certain broad principles have been deduced, and the general lines of their application indicated. There are many aspects of the problem which have not been dealt with, or have only very briefly been touched upon in these pages. The details of a practical programme require much careful study and experiment. But whatever form the new developments may take, the essential preliminary is the adoption of a new attitude with regard to Industry, the recognition of national responsibility for industrial conditions, the recognition of the joint responsibility towards the nation borne by those who are engaged, whether as Employers or Employed, in its activities. To hold the balance true between the economic and the human side of the problem; to increase at once the extent and quality of output ; to make the work of each man, in any position, an integral and worthy part of his life as a citizen ; this is a task as truly national as that of victory in war. The unparalleled and undreamt of expansion of our military strength which has been called forth by the European struggle, may give us the measure of our capacity to meet the requirements of peace.

Appendix A.

A Suggested Experiment.

The following scheme for an experiment in industrial reconstruction, as applied to the working of the Post Office, is taken from a paper on "The Control of Industry after the War," read by Mr. A. E. Zimmern, M.A., at the Conference of Working-Class Associations held in Oxford, on July 21st, 22nd and 23rd, 1916. The authors of the Memorandum do not identify themselves with the suggestions made, but have thought it well to print the scheme as a concrete example of one way in which the principles discussed in the Memorandum could be experimentally applied. It would be of great value as a basis for inquiry and discussion if similar schemes, applicable to the leading staple industries, could be worked out by representatives of the trades concerned.

English people are in the habit of believing that ideas are "all very well in theory," but will never work in practice. The reason why ideas which are theoretically sound do not work out in practice is generally because they are applied without sufficient consideration of the conditions of the particular case, or because those who are entrusted with the task of carrying them out are not in sympathy with them. It is clear that not all the British industries are ripe for changes in the direction of democratic control. There are a number of previous conditions which it would be well to satisfy if an experiment is to have a good chance of success. I think we may broadly lay down seven conditions which the business or industry we are looking for should satisfy :—

1. It should be a nationalised industry*—that is to say, an industry which is recognised to be a public service and a permanent part of the national life. Such an industry is at once more removed from the atmosphere of commercialism and immune from the dangers, if also

* It should be pointed out that Mr. Zimmern's paper did not discuss the question of nationalisation of industries, except in so far as the Post Office organisation offered a specially suitable field for a *first* experiment in reconstruction.

from the stimulus, of competition and to liability from sudden changes on the side of demand. It would be possible, of course, to choose a municipalised industry, but a nationalised industry is more likely to yield the broad outlook required on both sides.

2. It should be an industry where the amount of labour employed is relatively large compared with the fixed capital invested, and where prosperity, therefore, depends principally upon the efficiency of the workers. Such an industry obviously affords a better ground for experiments in labour management.

On the labour side it should be an industry where the workers are—

3. Highly skilled.

4. Have a relatively high standard of general education and intelligence.

5. Have a high general level of personal character.

6. Where Trade Unionism is well organised both as regards numbers and spirit and has been afforded recognition by the employing authority.

7. Where there are no serious demarcation difficulties between the various Trade Unions concerned.

In the case which I propose to submit for experiment, the case of the Post Office, all these conditions would seem to be fulfilled.

1. It is a nationalised service.

2. The labour force—253,750 in all, or 230,000 on the manipulative side—is relatively large compared with the fixed capital.

3. The work is for the most part highly skilled, as is indicated by the fact that—

4. The great majority of postal workers have to pass a general examination at the age of 16 or over.

5. The *morale* of the service is uncommonly good. In spite of obvious temptations, the number of dismissals from the service is negligible. The average annual percentage of dismissals in the manipulative branch of the service is 0·25 per cent.

6. Trade Unionism is powerful and well organised in spite of the large number of girls employed. Practically all the men are organised.

7. The unions concerned are on good terms with one another and are organised for common action in a National Joint Committee.

How is the work of the Post Office at present organised? There is, as already mentioned, a broad division of the employés between what is called the clerical staff and the manipulative staff. With the clerical staff, which has organisations of its own, I do not propose to deal in what follows. I shall confine myself to the manipulative staff, consisting principally of postmen, sorters, telegraphists, telephonists, and engineering grades, who are represented on the National Joint Committee of Post Office Associations. That Committee consists of the following organisations :—

Name of Association.	Class or Classes Represented.	Official Establishment of Classes.	Membership of Association.
Postmen's Federation	Postmen, assistant and auxiliary postmen	68,000	51,500
Postal and Telegraph Clerks' Association	Telegraphists, counter clerks and telegraphists, sorting clerks and telegraphists, telephonists, and learners	35,000	22,000
Fawcett Association..	Sorters, London Postal Service	7,021	6,430
Engineering & Stores Association (Postal, Telegraph, and Telephone)	Skilled and unskilled workmen, etc., in Engineering and Stores Department	13,000	7,000
National Federation of Sub-Postmasters	Scale payment sub-postmasters	22,658	9,400

Let us now turn to the organisation of the management side. The control of the Post Office is vested, subject to the supremacy of the Cabinet and of Parliament, in the Postmaster-General and his permanent Secretary, known as the Secretary of the Post Office. The control of the service thus centres in the Secretary's office at St. Martin's-le-Grand. The work of the Secretary's office is carried on under his supervision in five departments, dealing respectively with questions of establishment, staff, buildings and equipment, organisation (*i.e.*, mails, train services, collection of letters, etc.), and engineering. There are also Secretaries for Scotland and Ireland, who exercise a general control over the staff in those countries, subject, however, to the control of the Secretary's department in London. All dismissals, for instance, must be referred to London.

As regards local administration, the country is divided into 14 districts, each of which is in charge of an official called the Surveyor. Surveyors are allowed fairly wide powers of organisation and control, subject, however, in the case of the staff to the right of appeal to the Secretary in London in all cases affecting either an individual or a group of individuals.

Below the Surveyors are the Postmasters. In every Surveyor's district there are a number of Postmasters responsible for the business of the head office and certain sub-offices. Postmasters are given a fairly free hand in matters of organisation, but in the more important matters affecting their subordinates they are required to obtain the Surveyor's sanction.

Let us now turn to the question of the relation between the governing authorities and the staff, so far as staff conditions are concerned. Those conditions are laid down in a series of regulations which may be summarised as follows: The associations of postal employés have been accorded recognition by the Post Office authorities; that is, they are recognised as having the right to represent the interests of individual workers or groups of workers. The conditions under which this right may be exercised are carefully defined by the authorities. The general procedure is for the central office of the association concerned to submit a memorial on the point at issue to the Secretary or to the Postmaster-General. Such memorials are invariably acknowledged, and it is possible for the representatives of the association to meet the authorities at periodical intervals to discuss matters already submitted in writing. The matters on which the associations are free to submit memorials are defined as "general questions relating to the conditions at work, *i.e.*, wages, hours of duty, leave, meal reliefs, etc." Memorials on local questions and on individual questions other than those affecting discipline or the conduct of supervising officers have to be submitted in the first instance by the local branch of the association concerned to the local responsible official (*i.e.*, the Postmaster or Surveyor). The local official first deals with representations, and, failing satisfaction, the association is at liberty to carry the matter further to headquarters and obtain a reply. No memorials are allowed to be submitted on questions relative to promotion. The liberty

of action of the associations is also limited in the case of questions of discipline. The provision in this connection is sufficiently important to be quoted in full :—

" Memorials respecting disciplinary measures that have been taken against individual officers may be submitted to the Secretary or the Postmaster-General by the central body of the association in serious cases, where appeals by the individuals, made first to the local authorities and then to the Secretary or Postmaster-General, have not been successful, and where the central body have satisfied themselves by a full investigation of the circumstances that they can present new facts or considerations which render further review desirable."

It will thus be seen that the Trade Unions are put in the position of a sort of permanent and official opposition. Their function is not to co-operate with the management, but to criticise, not to prevent complaints, but to endeavour to remedy them ; and in certain cases, such as discipline, where feeling is likely to run highest, they are precluded from interfering till the matter has already been declared upon by the Secretary and has become the subject of serious and probably bitter controversy.

How can this system of management be modified in the direction outlined ? An attempt will be made in the following remarks to suggest how this might be done. The object of the reforms suggested is not to revolutionise the organisation of the postal service or to turn the Department upside down ; it is to take the existing organisation as it stands and to make the least possible change compatible with granting to the staff that measure of responsibility which is increasingly felt to be necessary in order to secure the efficiency and harmony of the service. I am indebted in what follows to my friend, Mr. J. G. Newlove, a distinguished ex-student of Ruskin College and now General Secretary of the Postal and Telegraph Clerks' Association, who has given much time and thought to the improvement of the service with which he is connected, and is willing to accept full responsibility for the constructive side of this paper.

The first suggested change is that machinery shall be set up which will give the central bodies of the associations representation on a committee of each branch of the Secretary's office. Where the interests of each grade

are peculiar, as in the establishment branch, there should be a representative of each grade ; where their interests are identical, as on building questions, less would suffice.

Similar machinery should be set up in each Surveyor's district. Advisory Committees should be formed to discuss with the Surveyor questions of policy affecting his district, and these committees should contain a representative of each grade to co-operate with the Surveyor's staff.

Passing down to the individual office—what corresponds in other industries to the " workshop "—it should be one of the duties of the Postmaster to consult with representatives of the staff on all questions affecting the particular office. This should extend to all questions without exception which affect the office as a whole, for all such questions must in some way reflect on the organisation of the office. Even a matter like complaints from the public can be traced back to office organisation.

A difficulty arises at this point as to the procedure in very small offices. The associations find by experience that it is often difficult in such offices to find a local secretary who is sufficiently well trained to deal with questions of policy. Yet it is just in such small offices that precedents distasteful to the staff are apt to be created. Such offices, therefore, require special treatment, and it is suggested that a representative of the Executive of the associations should be able, if necessary, to act as a medium of advice for the smaller offices. It might prove desirable in this connection to rearrange the boundaries of the associations'districts so as to harmonise them with the Surveyor's districts.

This procedure is in itself no great innovation. Many Postmasters do already adopt means of consultation with their staff, and are indeed definitely encouraged to do so by the rules of the Department. The new arrangement will merely serve to regularise this and to level up the procedure in the various offices. It is not suggested that the new committees shall have a deciding voice. Where no agreement can be reached in them the decision must continue to rest, as now, with the supervising authorities. If on matters of importance a policy were to be adopted contrary to the wishes of the associations it would always be possible to them to reopen the matter through their annual conference and to approach the Postmaster-General as at present. But the criticism which they

would then bring to bear would be bred of inside knowledge, and it would of necessity be constructive rather than critical in tone.

This change of spirit would be likely to apply in special degree to questions of financial policy. One of the chief functions of the new central machinery would be to discuss questions involving expenditure, and in particular questions of wages or salaries. The procedure at present in this connection is not satisfactory. No scheme involving fresh expenditure can be adopted until it has been approved by the Treasury. The present method of dealing with such schemes is to refer them to a Parliamentary Committee of Inquiry. The members of such Committees are necessarily not conversant with the whole inner working of a huge organisation like the Post Office, and are, therefore, unable to form a judgment at first hand on the problems submitted to them for decision. They must inevitably rely for their special knowledge upon the high officials of the Department. This, it will be seen, naturally tends to place those at present responsible for the policy of the Department in a preferential position as compared with the representatives of the staff. As under existing conditions the Department is bound to consider the interests of the taxpayer, its natural rôle is that of opposition to increases in pay. This is intensified by the fact that the Post Office is run at a considerable profit, amounting to no less than £6,000,000 in the last year before the war, and that there is a tendency to adopt purely commercial standards of successful administration. If the procedure by Parliamentary Committee were abandoned and questions of wages and conditions were threshed out on the proposed central committees before being submitted to a Parliamentary body for ratification, or final decision in cases of disagreement, the arrangement would work more fairly for all parties concerned, including the Treasury. The elimination of friction and the consequent increase of *esprit de corps* should go further towards true efficiency and economy than the existing methods, lending themselves, as unequal contests always do, to undesirable and often unpleasant methods of influence and agitation. If it were found possible not to pay the profits of the Post Office into the ordinary revenue, but to earmark them for special purposes of social usefulness, in

the choice of which the associations might have a voice, this would remove any feeling on the part of the staff that they were being "exploited" in a commercial spirit, and would act as a strong incentive to use every effort to improve the service.

This brings us to the functions of the central and local committees. The most important and difficult of these would be the discussion of questions of discipline. Discipline is really the crux of the whole change of method and spirit proposed. The existing rule, which forbids the associations to interfere except after judgment has already been passed both locally and at the centre, is based on the root principle of the old system, that power is exercised from above and that the prestige of the ruling authority must not be infringed. It is also based upon reasons of practical convenience in that most men extremely dislike the responsibility of sitting in judgment on their companions and workmates. If the associations are to receive the right of co-operating with the supervisory staff in dealing with cases of discipline they will be assuming responsibility for giving what must sometimes be very unpleasant decisions against their members. But because a thing is unpleasant there is no reason for not facing it. Democracy involves the extension of responsibility in things pleasant and unpleasant alike. If the associations were ready to deal with pay, but shirked dealing with punishment, they would be false to their principles. Fortunately, the number of serious cases which arise in the service is extremely small, but these are just the cases which the associations ought to deal with. The best arrangement would seem to be to leave minor breaches of discipline to be dealt with as at present by the individual Postmaster, but that serious cases referred by him to the Surveyor should be dealt with by the Surveyor's Committee, where the representatives of the association would be less subject than on the local committee to the bias of personal feeling. Matters dealt with by the Postmaster would be brought before the association through the local committee if it were found necessary.

Questions of recommendation for promotion should also be dealt with by the Surveyor's committee. Promotion and discipline really hang closely together; both involve difficult decisions and the danger of heart-burning;

But there seems no way out except through the extension of the principle of responsibility.

As regards the rest of the committee's work, it can be summed up under the general heading of " conditions " —hours, leave, meal reliefs, improvements in office equipment, etc. Most questions of this kind would be settled locally. Only questions of principle would be referred to the central committee for decision.

Such, in brief outline, is the way in which the principle of democratic control might be introduced into the largest single business in the country. The changes suggested may seem modest in scope, but they would be far-reaching in effect. The Postmaster-General who had imagination enough to adopt a scheme of this nature would be conferring a benefit alike on the postal workers, the Labour movement, and the whole nation. To the postal workers the change would bring a new sense of dignity and self-respect and satisfaction in their work, and, more important perhaps even than these, it would leave them free to exercise their citizen rights as pure citizens without the constant temptation to use political influence as a means for remedying grievances arising out of their employment under Government. It would thus be a charter not only of economic, but of political emancipation. To the Labour movement it would be an example and an inspiration to apply the same principle of responsible democracy to the far more difficult problems of private employment which still lie unsolved before it. To the community it would mean a transformation in the spirit of one of the chief of those public services on the efficiency of which we shall be so much dependent in the work of national reconstruction after the war. A keen, willing, and enterprising Post Office can be of far more service to us than we realise at present. But most of all the community will benefit from the knowledge that the qualities of mind and character necessary to the working of self-governing institutions are not confined to any one class or section, that democracy is a plant which, properly tended and safeguarded, can grow and prosper in other than its familiar soil, and that our country, which has led the world in the institutions of politics and government, is ready and eager to apply the same enduring principles to wider and wider fields of public business.

Appendix B.

Works Lectures.

A large firm of manufacturers in the North of England has recently adopted with every success the following scheme for creating a better understanding between the principals and the employees, and for promoting the efficiency of the business. An outside person, who has given much thought to industrial and commercial matters, was requested by the firm to come and study the business in all its bearings and phases, in order to deliver lectures to the workpeople, the staff and also the employers themselves, with a view of making plain to each the nature of the business, the principles of industrial efficiency, and the true nature of industrial relations. He was given every opportunity of acquainting himself with the business side of the concern, the buying of the raw material, the administration of the offices and works, the finances of the firm, and the sale of the finished product, and was also given every facility for familiarising himself with the lives, working conditions, thoughts and aspirations of the workers. In the first place arrangements were made for a course of twelve lectures to the management and staff. The benefits of these were so marked that a further course of twelve lectures was arranged to be given to selected representatives of the workpeople. The lectures were given on one afternoon, for twelve successive weeks, and were attended by several hundred employees who were paid their wages for the time of attendance, the lectures being regarded as a part of the working routine. The lecturer was left an entirely free hand as to what he should say and did in fact administer praise or blame impartially upon the results of his investigation. The improvement in the relations between the firm and its employees surpassed all expectations, and the scheme is to be established as a permanent feature of the organisation of the business. Many employers who have been aroused during the war to a quickened consciousness of their responsibility and who desire to establish for the future a new spirit in their works, have asked themselves, "What can we do to-morrow?" The above scheme is suggested as an answer to that question.

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